

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Ann Arbor, Michigan	County Washtenaw
Audit Date June 30, 2005	Opinion Date October 21, 2005	Date Accountant Report Submitted to State: December 20, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following: "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).	X		

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025		City SAGINAW	State MI
Accountant Signature <i>Rehmann Robson</i>		Zip 48605	

CITY OF ANN ARBOR

COMPREHENSIVE ANNUAL FINANCIAL REPORT

County of Washtenaw
State of Michigan

Fiscal Year Ended June 30, 2005



Issued by:

Finance Department
100 N. Fifth Avenue
Ann Arbor, Michigan 48107
(734) 994-2730

CITY OF ANN ARBOR
COMPREHENSIVE ANNUAL FINANCIAL REPORT

June 30, 2005

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CITY OF ANN ARBOR, MICHIGAN
100 North Fifth Avenue, P.O. Box 8647, Ann Arbor, Michigan 48107

October 21, 2005

**To the Honorable Mayor, Members of the City Council
And Citizens of the City of Ann Arbor**

The Comprehensive Annual Financial Report (CAFR) of the City of Ann Arbor for the year-end June 30, 2005, is submitted. Staff in the Accounting Services Unit prepared the report, with assistance from the Pension System, Downtown Development Authority, Housing Commission and other City staff. The City has the responsibility for all disclosure and accuracy of material contained in this report.

State law requires that all local governments, subject to certain size criteria, publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Ann Arbor for the fiscal year ended June 30, 2005.

This report consists of management's representations concerning the finances of the City of Ann Arbor. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, City management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to compliment the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

The CAFR is designed in a manner to assist and guide the reader in understanding its contents. The report consists of three sections:

- The Introductory Section includes the table of contents, this transmittal letter, the City's organizational chart, and a list of principal officials.
- The Financial Section includes the MD&A, the basic financial statements, required supplementary information and various other statements and schedules, as well as the independent accountants' report based on an audit of the basic financial statements.
- The Statistical Section includes selected financial and demographic information, generally presented on a multi-year basis.

Profile of the Government

The City of Ann Arbor was founded in 1824 and incorporated as a city in 1851. The City is located in the approximate center of Washtenaw County in the southeastern section of Michigan's lower peninsula. The City is approximately 28 square miles in area and serves as the County Seat. The City has an excellent public transportation system for its citizens and visitors to enjoy. The City is nationally known for its outstanding educational and medical facilities, serving as the home of the University of Michigan.

The City operates under a Mayor/Council-Administrator type of government. The Council is comprised of the Mayor and ten Council Members. The City is divided into five wards, two Council Members are elected from each ward. The Council appoints a City Administrator to serve as the Chief Administrative Officer of the City responsible for daily operations. The organizational chart of the City is shown following the transmittal letter.

The component units discussed below are included in the City's financial reporting entity because of the significance of their operational or financial relationships with the City. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," these financial statements present the City (the primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes financial accountability and whether the financial statements would be misleading if data were not included.

Blended Component Unit. The Ann Arbor Building Authority is presented as a blended component unit. Commissioners of the Authority are appointed by the Mayor and confirmed by City Council. Although it is legally separate from the City, the Authority is reported as if it were part of the primary government because its sole purpose is to issue revenue bonds to finance major capital construction by the City.

Discretely Presented Component Units. The Component Unit columns in the government-wide financial statements include the financial data of the City's other Component Units. They are reported in separate columns to emphasize that they are legally separate from the City. The following Component Units are included in the reporting entity because the primary government is financially accountable and is able to impose its will on the organization.

Downtown Development Authority (DDA). The DDA was created to finance rehabilitation and redevelopment in the downtown area. Commissioners of the DDA are appointed by the Mayor and approved by City Council. Development plans are approved by Council and Council must approve all modifications to the plan. The City maintains some accounting and payroll records for the DDA, whose primary source of funding is from Tax Increment Financing revenues. Bonds secured by those revenues are issued by the City on behalf of the DDA, which does not have the ability to issue debt.

Ann Arbor Housing Commission. The Housing Commission was created to provide low-income housing for City residents. Commissioners of the Housing Commission are appointed by the Mayor and approved by City Council. City Council is notified of all grant applications and any changes to contracts with the Department of Housing and Urban Development, the Commission's primary funding source. The Commission maintains its own accounting records and bank accounts. The City provides limited, special purpose financial support to the Commission, subject to request and Council approval, and is contingently liable for its debt.

The City is responsible for managing and financing many of the services for its citizens. The service areas include: Community Services, Financial Services, Safety Services, and Public Services.

FACTORS AFFECTING FINANCIAL CONDITIONS

The information presented in the financial statements should be considered on a broad perspective within the specific environment of the City.

Local Economy

The City remains in good financial condition, as is demonstrated by the financial statements and schedules included in this report. As an indication of economic strength, the assessed value of the taxable property (2004) increased by 5.2% over the 2003 valuation. The City receives a portion of the tax revenue generated to assist in funding its operations.

The City provides a full range of services including: police, fire, refuse collection and disposal, recycling collection and processing, recreation, social services by contract, public improvements, planning and zoning, and general administrative services. The citizens and transients of the City enjoy these services. The City is surrounded by three higher educational centers 1) The University of Michigan, 2) Concordia College, and 3) Cleary College. Additionally, located within a 10-mile radius are two other higher educational centers. Over 69% of the residents have completed four or more years of college.

The City of Ann Arbor has the largest population base in Washtenaw County and serves as the County Seat. The 2000 Census identified 114,061 residents in Ann Arbor, representing 35% of the population base in Washtenaw County. The median household income of our citizens is \$71,293. Personal income in the City has risen in recent years, which is an indication of a healthy economy.

The City is endowed with several major corporations located within its boundaries, including Pfizer Pharmaceutical Company and Borders. In addition, Ann Arbor is home to one of the largest employers in the County, the University of Michigan, that employs 30,574 people. Ann Arbor is also known for its excellent technology infrastructure that has attracted several large technology firms to the area.

Ann Arbor is accessible by three major Interstate highways connecting Detroit to the east, Chicago to the west, the Upper Peninsula to the north, and Ohio to the south.

Budget Process

The City Administrator is required by City Charter to prepare and submit an annual budget to City Council. This budget is prepared on the modified accrual basis and is adopted by City Council as required by the State of Michigan. Budgetary control is maintained at the service area level for the General Fund. The City Administrator is authorized to transfer budgeted amounts within the General Fund service areas. Budgetary control for all other funds is maintained at the fund level. Revisions to a service area total of the General Fund or to the fund total must be approved by City Council.

Long-term Financial Planning

The City Council and City Administrator are committed to strategies designed to ensure the long-term financial health of the City. Facing legal and political limits on the amount of property taxes that can be levied in Ann Arbor, in 2002, the City Council provided the newly hired administrator with instructions to improve upon the cost reduction steps that began with the 2001-2002 budget cycle. From a high of 1,024 full-time equivalent (FTE) positions approved in the 1999-2000 budget, the current year fiscal plan includes only 822 FTE positions. Timely execution of current plans will have a new, centralized maintenance facility on-line in 2006 and a new Justice Annex to City Hall in place by 2008.

Cash Management Policies and Practices

Cash balances are invested according to the City's investment policy and State law. Certain cash balances are pooled in an investment fund. The cash resources of the Pension Trust Fund and certain other funds are invested separately. Short-term investments are generally restricted to: 1) certificates of deposit; 2) commercial paper of corporations rated A-1 and P-1; 3) U.S. Treasury bills; and 4) savings accounts. U.S. Treasury notes are usually purchased with cash available for longer periods of time. Maturities are intended to correspond with cash flow needs.

For fiscal year 2005, the accounting return on investments (realized and accrued income and gains plus accretion and amortization of premiums and discounts) on the pooled investment portfolio was 2.88%. The market rate of return (which reflects market adjustments) was 2.62%.

Risk Management

As permitted by State law, the City is self-insured (up to certain limits) for employee medical expenses, unemployment claims, general liability, and property damage. Funding for claims and insurance is provided through an Internal Service Insurance Fund. This fund receives revenues from the operating accounts. The City contracts with one provider to administer the medical program for its employees and retirees. In addition, the City contracts with one provider to administer the workers' compensation program.

Pension and Other Post-employment Benefits

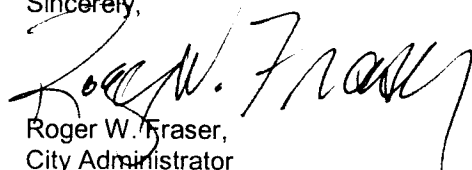
The City provides a defined benefit pension plan and post-employment healthcare benefit plan for all permanent employees. The pension system is administered by a seven member Trustee Board and an Executive Director. The net assets of the defined benefit pension plan on June 30, 2005 were \$-388,019,600, and the post-employment healthcare plan was \$44,963,340. The annual actuarial valuations, applicable to the defined benefit pension plan, continue to reflect the plan is adequately funded at 103.7%.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Ann Arbor for its comprehensive annual financial report for the fiscal year ended June 30, 2004. To be awarded a certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards.

The City has been awarded this certificate annually since 1985. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Sincerely,



Roger W. Fraser,
City Administrator

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Ann Arbor,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

President

Jeffrey R. Emer

Executive Director

CITY OF ANN ARBOR, MICHIGAN

6

John Hieftje, Mayor

Council Members

Jean Carlberg
John Roberts
Marcia Higgins
Michael Reid
Wendy A. Woods

Christopher S. Easthope
Leigh Greden
Robert M. Johnson
Margie Teall
Joan Lowenstein

CITY ADMINISTRATOR

Roger W. Fraser

CHIEF FINANCIAL OFFICER

Tom Crawford

ACCOUNTING SERVICES MANAGER

Karen M. Lancaster

INTERIM CITY TREASURER

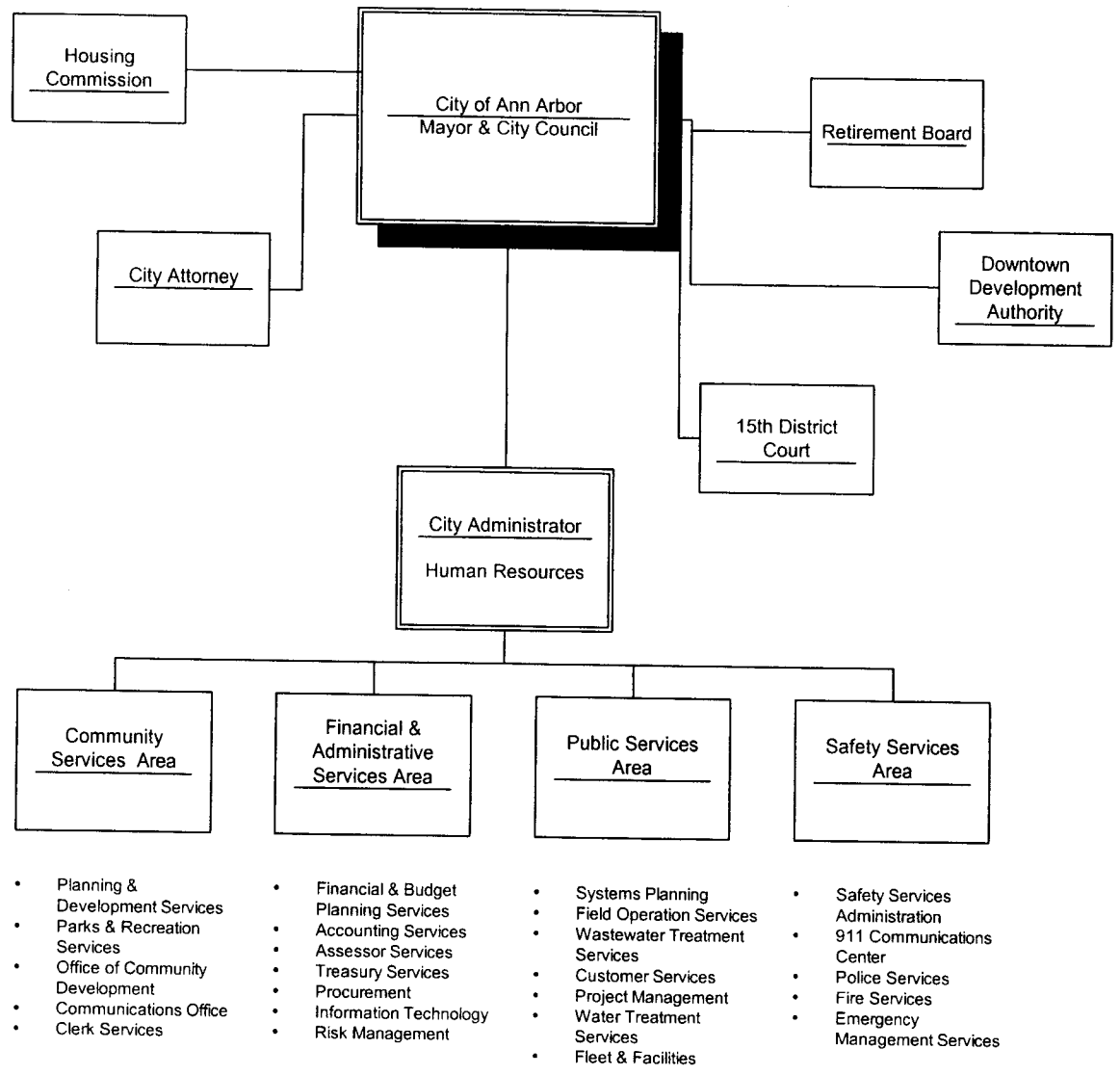
Brenda L. Smith

CITY ATTORNEY

Stephen K. Postema

CITY CLERK

Jackie Beaudry





REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

8

 an independent member of
BAKER TILLY
INTERNATIONAL

INDEPENDENT AUDITORS' REPORT

October 21, 2005

Honorable Mayor and
Members of the City Council
City of Ann Arbor, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Ann Arbor, Michigan*, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Ann Arbor's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Ann Arbor Housing Commission (a discretely presented component unit), which represents 34% and 47%, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report was furnished to us, and our opinion, insofar as it relates to the amounts included for the Ann Arbor Housing Commission discretely presented component unit, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ann Arbor, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2005, on our consideration of the City of Ann Arbor, Michigan's internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters in a separately issued single audit report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, budget presentations for the major funds, and the historical pension supplementary information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ann Arbor's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit and the report of the other auditors, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Rehmann Lohman

MANAGEMENT'S DISCUSSION AND ANALYSIS

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As management of the City of Ann Arbor, Michigan, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal years ended June 30, 2005 and June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-4 of this report.

FINANCIAL HIGHLIGHTS

- The City's financial statements are prepared using two different accounting standards resulting in fund financial statements and government-wide statements.
- Government-wide financial statements are comprised of governmental activities and business-type activities. Governmental activities include General Fund activities such as Public Safety and Parks and Recreation. Business-type activities include proprietary funds such as Water, Sewer, and Solid Waste.
 - In total, the assets of the City exceed its liabilities by \$827,443,761 at the close of the most recent fiscal year.
 - \$693,541,055 is invested in Capital Assets, net of related debt ;
 - \$31,170,473 is restricted for specific purposes, such as capital projects;
 - \$102,732,233 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors, subject to the purpose of the fund in which they are located. This balance is comprised of \$44,040,557 in governmental activities and \$58,691,676 in business-type activities.
 - The City's total net assets increased by \$19,574,282 during the year, primarily due to increased infrastructure.
 - The City's total bonded debt decreased by \$10,765,672, (new issues less retirements), during the current fiscal year.
- Fund financial statements are comprised of 37 governmental funds and 9 proprietary funds. Governmental funds include the General Fund, Street Repair Millage Fund, and other special revenue and debt service funds.
 - At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$66,344,745. The increase in fund balance is primarily due to expenditures coming in under budget and deferral of capital projects.
 - Of the fund balance amount, \$58,013,879 is unreserved and may be used to meet the government's ongoing obligations to citizens and creditors, subject to the purpose of the fund in which they are located.
 - The City's major funds, the General Fund (\$9,740,289) and the Street Repair Millage Fund (\$10,100,883) account for 34% of this unreserved balance. The remaining amount is represented across the other 35 non-major funds.
 - The general fund recognized a gain of \$1,196,853. At the end of the current fiscal year, unreserved general fund balance was 12.7% of the total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements: 1) management discussion and analysis (this section), 2) government-wide financial statements, 3) fund financial statements, and 4) notes to the financial statements.

GOVERNMENT-WIDE STATEMENTS

The government-wide statements are designed to provide readers with an overview of the City's financial health as a whole, similar to those used in the private-sector companies. Two components of the government-wide statements include:

- The Statement of Net Assets is the difference between assets and liabilities, which can be used as an indicator of the City's financial health, or position. This statement includes all of the City assets and liabilities.
- The Statement of Activities provides information about the City activities as a whole, as it relates to the City's revenues and expenses. The statement of activities accounts for revenues and expenses when they occur, regardless of when cash is received or paid. This statement indicates whether the City's revenues exceed its expenses, which is another way to monitor the overall health of the City.

The Statement of Net Assets and the Statement of Activities, contain information in the following three categories:

- **Governmental activities** - All of the City's basic services such as police, fire, public works, and general administration are included in governmental activities. Property taxes, fees and charges, state shared revenues, and state and federal grants finance most of these activities.
- **Business-type activities** - The City assesses fees, taxes and charges to cover the cost of services provided in these business-type activities. Business-type activity areas include water and sewer systems, parking facilities, golf courses, solid waste and an airport.
- **Component units** - Included in the component units for the City are the Downtown Development Authority and the Ann Arbor Housing Commission. Although the Downtown Development Authority and the Ann Arbor Housing Commission are separate legal entities, the City is financially responsible for them. The Housing Commission provides low-income housing to City residents. The City provides limited, special purpose financial support to the Commission and is contingently liable for its debt.

The government-wide statements can be located on pages 21-23 of this report.

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the City's most significant funds, not the City as a whole. The City uses the fund financial statements to account for specific funding sources and its spending patterns. Some funds are required to be established by State law and by bond covenants. The City Council establishes other funds to control and manage funds for particular purposes or to show it complies with legal requirements. The fund financial statements are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds

Most of the City's basic services are reported in the governmental funds, which focus on how cash flows in and out of those funds and its balances at year-end that are available for spending/reserve purposes. The governmental funds provide a detailed short-term view of the City's general operations and the basic services it provides. In addition, it assists management in the assessment of whether there are more or fewer resources, which can be spent on future City programs.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains thirty-seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and street repair millage funds. Data from the other thirty-five governmental funds are combined in a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be located on pages 24-29 of this report.

Proprietary funds

The City maintains thirteen different proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, storm and sanitary sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its central stores; fleet services; park services headquarters; and insurance funds. Because internal funds benefit predominantly governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sanitary sewer operations, parking system, market, golf courses, airport, stormwater system, solid waste and hydroelectric power system funds, each of which are considered major funds of the City.

The basic proprietary fund financial statements can be located on pages 30-34 of this report.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The City is the trustee, or fiduciary, for certain assets held on behalf of others. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Fiduciary fund combining statement information is contained in the combining section of the CAFR.

The basic fiduciary fund financial statements can be located on pages 35-36 of this report.

ADDITIONAL INFORMATION

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 37-62 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to the major fund budgetary comparisons and a schedule concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 63-72 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be located on pages 73-99 of this report.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The government-wide financial analysis focuses on the net assets and changes in net assets of the City's governmental and business-type activities. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As the following table demonstrates, the City's assets exceeded its liabilities by \$827,443,761 at June 30, 2005 compared to \$807,869,479 at June 30, 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**City of Ann Arbor
Net Assets
Comparative Schedule- June 30, 2005 and 2004**

	June 30, 2005	June 30, 2004 as restated	June 30, 2005	June 30, 2004 as restated	June 30, 2005	June 30, 2004 as restated
	Governmental Activities		Business-type Activities		Total	
Current and other assets	\$91,272,195	\$93,526,826	\$84,212,977	\$82,133,444	\$175,485,172	\$175,660,270
Capital assets	625,935,827	616,382,507	193,407,175	183,803,471	819,343,002	800,185,978
Total assets	717,208,022	709,909,333	277,620,152	265,936,915	994,828,174	975,846,248
Long-term liabilities outstanding	34,203,047	36,067,294	99,047,811	104,622,198	133,250,858	140,689,492
Other liabilities	20,954,392	15,625,948	13,179,163	11,661,329	34,133,555	27,287,277
Total liabilities	55,157,439	51,693,242	112,226,974	116,283,527	167,384,413	167,976,769
Net assets:						
Invested in capital assets, net of related debt	603,474,157	591,407,720	90,066,898	74,829,283	693,541,055	666,237,003
Restricted	14,535,869	18,488,574	16,634,604	16,493,596	31,170,473	34,982,170
Unrestricted	44,040,557	43,067,813	58,691,676	63,582,493	102,732,233	106,650,306
Total net assets	\$662,050,583	\$652,964,107	\$165,393,178	\$154,905,372	\$827,443,761	\$807,869,479

By far the largest portion of the City's net assets reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets at June 30, 2005 (\$31,170,473) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$102,732,233 may be used to meet the government's ongoing obligations to citizens and creditors. The decrease in Restricted Net Assets from \$34,982,170 in 2004 to \$31,170,473 in 2005 is due to a decrease in Restricted for Capital Projects due to completion of several capital projects during 2004-2005. Certain items have been reclassified in the prior year. In addition, the balances as of June 30, 2004 have been restated as the solid waste activity has moved from a governmental activity to a business-type activity as of July 1, 2004.

Long-term liabilities have decreased from 2004 to 2005 mainly due to the decrease in bond indebtedness. In addition, other liabilities have increased from 2004 to 2005 due to an increase in Estimated Claims Payable for the City's self-insurance program. The City experienced a change in the program and became fully insured for workers' compensation claims during 2003-2004. Also, the City has accrued a liability of \$4.1 million for costs associated with the removal of dead and dying trees affected with Emerald Ash Borer.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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City of Ann Arbor Changes in Net Assets Comparative Schedule for the Years Ended June 30, 2005 and 2004

	2005	2004	2005	2004	2005	2004
	Governmental		Business-type		Total	
	Activities		Activities			
Revenue:						
Program revenue:						
Charges for services	\$22,466,820	\$30,498,519	\$45,891,536	\$40,702,661	\$68,358,356	\$71,201,180
Operating contributions and grants	12,245,420	10,608,459			12,245,420	10,608,459
Capital contributions and grants	1,213,663	1,806,735			1,213,663	1,806,735
General revenue:						
Property taxes	59,452,810	64,162,166	10,011,080		69,463,890	64,162,166
State shared revenues and grants	11,674,762	11,865,469			11,674,762	11,865,469
Investment income	2,181,348	907,722	1,651,492	304,132	3,832,840	1,211,854
Other	367,458	646,593			367,458	646,593
Total revenue	109,602,281	120,495,663	57,554,108	41,006,793	167,156,389	161,502,456
Expenses:						
Governmental activities:						
General government	12,025,660	20,832,703			12,025,660	20,832,703
Public safety	43,656,128	38,535,603			43,656,128	38,535,603
Highways and streets	15,086,160	9,788,021			15,086,160	9,788,021
Solid waste		6,940,330				6,940,330
Culture and recreation	7,697,210	9,190,992			7,697,210	9,190,992
Social services	2,431,754	2,026,806			2,431,754	2,026,806
Transportation (payment to AATA)	8,349,044	7,951,457			8,349,044	7,951,457
Community access television	1,080,660	1,029,326			1,080,660	1,029,326
Information services	626,090	377,976			626,090	377,976
Urban redevelopment and housing	2,993,631	1,882,128			2,993,631	1,882,128
Public Services	7,468,543				7,468,543	
Economic development		250,000				250,000
Unallocated depreciation	37,375	41,414			37,375	41,414
Interest on long-term debt	934,007	1,218,936			934,007	1,218,936
Business-type activities:						
Water			16,671,468	15,772,718	16,671,468	15,772,718
Sewer			14,019,208	14,102,932	14,019,208	14,102,932
Parking			2,368,344	2,478,172	2,368,344	2,478,172
Market			115,892	149,660	115,892	149,660
Golf courses			1,152,354	1,275,010	1,152,354	1,275,010
Airport			860,515	804,005	860,515	804,005
Stormwater			1,662,144	1,875,871	1,662,144	1,875,871
Hydropower			259,773	467,783	259,773	467,783
Solid waste			8,086,147		8,086,147	
Total expenses	102,386,262	100,065,692	45,195,845	36,926,151	147,582,107	136,991,843
Increase in net assets before transfers	7,216,019	20,429,971	12,358,263	4,080,642	19,574,282	24,510,613
Transfers	1,870,457	(335,508)	(1,870,457)	335,508		
Increase in net assets	9,086,476	20,094,463	10,487,806	4,416,150	19,574,282	24,510,613
Net assets: beginning of year, as restated	652,964,107	632,869,644	154,905,372	150,489,222	807,869,479	783,358,866
Net assets: end of year	\$662,050,583	\$652,964,107	\$165,393,178	\$154,905,372	\$827,443,761	\$807,869,479

MANAGEMENT'S DISCUSSION AND ANALYSIS

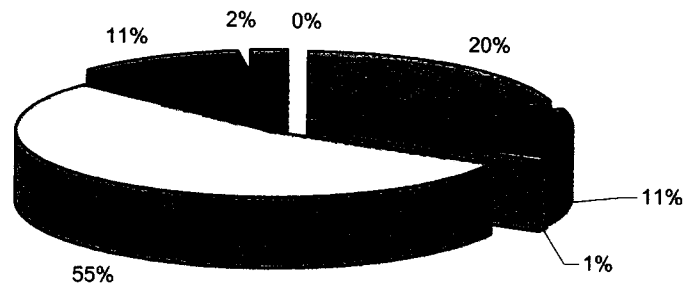
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The City's net assets increased by \$19,574,282 during the current fiscal year and \$24,510,613 in the prior fiscal year.

Governmental activities. Governmental activities for the City's net assets increased by \$9,086,476, accounting for 46% of the total growth in the net assets of the City. During 2003-04, governmental activities increased by \$20,094,463 which is 82% of 2003-04 of the total growth. Key elements are as follows:

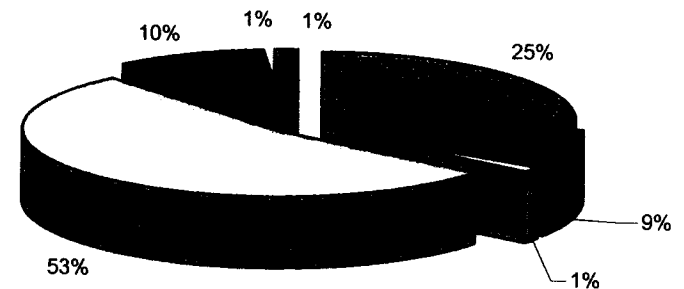
- Property taxes decreased by approximately 7.4% in 2004-05 in governmental activities and increased 4.7% in 2003-04. The decrease is attributable to moving solid waste activities to an enterprise fund for fiscal year 04-05. Most of this increase in the prior year is due to increased taxable values and residential growth.
- Intergovernmental revenue (which is a combination of operating contributions and grants and state-shared revenues and grants) increased 6.4% from 2003-2004. This increase is due to the receipt of a \$659,000 state grant in 2004-2005 for the improvements in Dolph Park in the City. State shared revenue, primarily sales and use tax and income tax, decreased 1.61% in 2004-05 due to reductions of revenue sharing at the State level. In 2003-04, these revenues decreased by approximately 10.3% for the same reasons.
- Charges for services decreased by 26% in 2004-2005 primarily due to an increase in project closures in the General Fund for the Engineering department in the prior fiscal year.
- Investment income increased approximately 140% in 2004-05, due to a more favorable interest rate environment for Federal securities. In 2003-04 investment income decreased 63%, due in part to a lower volume of invested funds and due to a lower interest rate environment.

Revenues by Source - Governmental Activities-2005



- | | |
|------------------------------------|--------------------------------------|
| ■ Charges for services | ■ Operating contributions and grants |
| □ Capital contributions and grants | □ Property taxes |
| ■ State shared revenues and grants | ■ Investment income |
| ■ Other | |

Revenues by Source - Governmental Activities-2004



- | | |
|------------------------------------|--------------------------------------|
| ■ Charges for services | ■ Operating contributions and grants |
| □ Capital contributions and grants | □ Property taxes |
| ■ State shared revenues and grants | ■ Investment income |
| ■ Other | |

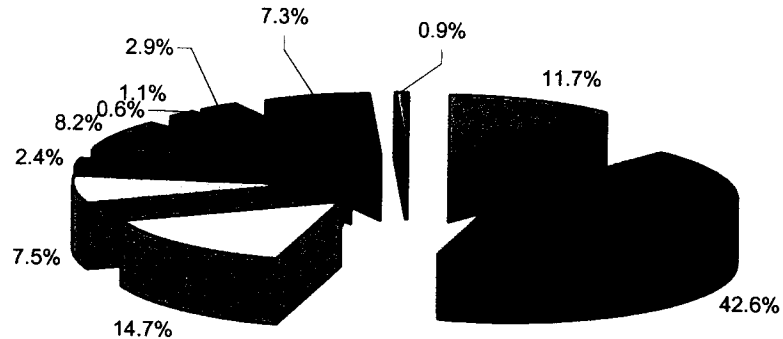
MANAGEMENT'S DISCUSSION AND ANALYSIS

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Governmental activities' expenses. Expenses for governmental activities increased \$2,320,570 from 2004 to 2005. Key elements are as follows:

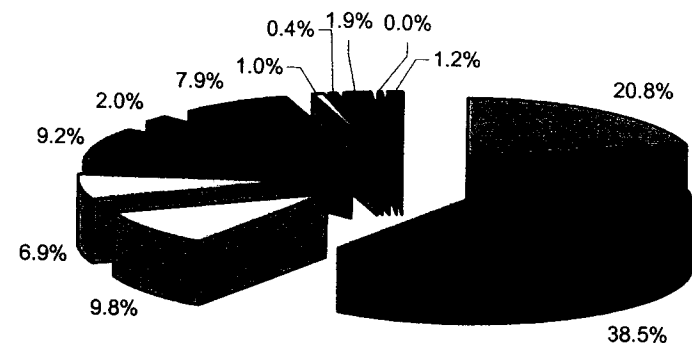
- The City accrued expenses related to the removal of the dead and dying trees infested with Emerald Ash Borer estimated to be \$4.1 million as of June 30, 2005.
- The City settled various union contracts during the fiscal year resulting in increased personnel costs.
- The above increases netted with a decrease in expenses due to the removal of the solid waste activity from governmental activities to business-type activities.

Expenses by Function - Governmental Activities-2005



■ General government	■ Public safety
□ Highways and streets	□ Culture and recreation
■ Social services	■ Transportation (payment to AATA)
■ Community access television	□ Information services
■ Urban redevelopment and housing	■ Public Services
□ Unallocated depreciation	■ Interest on long-term debt

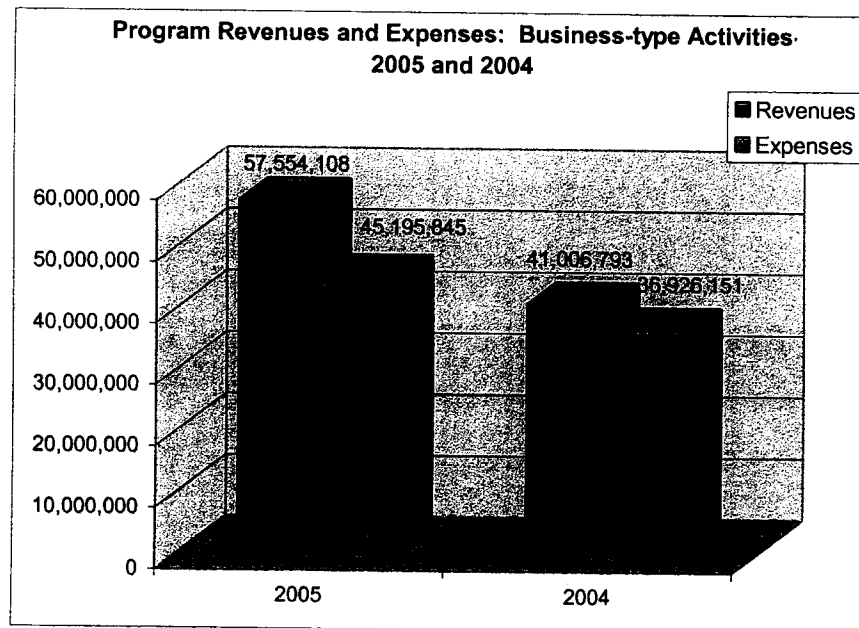
Expenses by Function - Governmental Activities-2004



■ General government	■ Public safety
□ Highways and streets	□ Solid waste
■ Culture and recreation	■ Social services
■ Transportation	□ Community access TV
■ Information services	■ Urban redevelopment and housing
□ Economic development	■ Unallocated depreciation
■ Interest on long-term debt	

Business-type activities. Business-type activities increased the City's net assets by \$10,487,806 for 2004-2005 and by \$4,416,150 for 2003-2004, accounting for 54% and 18% of the total growth in the government's net assets for the current year and prior year, respectively. Key elements of this increase are as follows:

- Charges for services for business-type activities have increased by \$5,188,875, or 12.75%, in the current year, primarily due to increased water and sewer revenues. In 2003-04, charges for services decreased by \$736,282, or 1.8% compared to the prior year.
- Expenses increased \$8,269,694, or 22.4%, in 2004-2005 primarily due to the Solid Waste activity moving to a business-type activity. In 2003-2004, expenses increased \$1,385,324, or 3.9%, primarily due to increased salaries and health care costs.
- Investment income increased \$1,347,360 due to a more favorable interest rate environment and a larger invested balance. In 2003-04, investment income decreased by 72% compared to the prior fiscal year as a result of a lower interest rate environment.



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$66,344,745 at June 30, 2005 versus \$62,240,055 at June 30, 2004, an increase of \$4,104,690 in 2004-2005 compared to a decrease of \$6,674,075 in 2003-2004. Of that amount, \$58,013,879 at June 30, 2005 and \$52,682,180 at June 30, 2004 constitutes unreserved fund balance, which is available for spending at the government's discretion.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$9,740,289 at June 30, 2005 versus \$8,117,344 at June 30, 2004, while total fund balance was \$10,660,367 and \$9,463,514 at June 30, 2005 and 2004, respectively. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 12.7 percent at June 30, 2005 and 10.64 percent at June 30, 2004 of total general fund expenditures. The fund balance of the City's general fund increased by \$1,196,853 during the current fiscal year in comparison to an increase of \$906,071 during the prior fiscal year. For 2004-05, this is attributable to both cost savings and higher than expected revenues for state-shared revenue and investment income, as well as Licenses, Permits and Registration. For 2003-04, this is primarily attributable to potential union contract settlement costs not spent during 2003-2004.

With respect to other governmental funds, the City added three new special revenue funds at the start of the fiscal year- the Construction Code fund, the Homeland Security Grant fund, and the Open Space and Parkland Preservation fund (formerly the Park Acquisition fund). The Construction Code fund was set up to account for the costs of planning and development activities related to construction. Revenues are derived mainly from licenses and permits. The Homeland Security Grant fund was set up to account for grant monies received from the Office of Homeland Security. In addition, the City levied a new millage for Open Space and Parkland Preservation. This tax revenue can be used for acquiring both parkland in the City and properties surrounding the City in order to preserve "green space".

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water, sanitary, storm sewer, hydroelectric power systems, parking system, market, golf courses, solid waste and airport, at the end of the year amounted to \$58,691,676. The water, market, sanitary, solid waste and stormwater systems, and parking system had an increase in net assets for the year of \$11,269,227, whereas, the golf course, airport and hydroelectric funds had a decrease of \$781,421. Other factors concerning the finances of these funds have been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original and final budgets for expenditures resulted in a 0.8% increase in 2004-05 compared to a 1.2% increase in 2003-04. The General Fund revenues exceeded its expenditures by \$1,196,853.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental/business-type activities as of June 30, 2005 was \$819,343,002 compared to \$800,185,978 at June 30, 2004 (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, improvements, machinery and equipment and construction in progress. The total increase in the City's investment in capital assets for the current fiscal year was 2.39% compared to 2.34% in 2003-2004. Major capital asset events during the fiscal year 2005 included a variety of street construction projects costing \$10,676,216.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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City of Ann Arbor's Capital Assets (net of depreciation)

	2005	2004 as restated	2005	2004 as restated	2005	2004 as restated
	Governmental Activities		Business-type Activities		Total	
Land	\$24,340,135	\$22,966,096	\$7,374,728	\$7,374,728	\$31,714,863	\$30,340,824
Construction in progress	4,147,559	2,176,623	28,960,164	47,010,481	33,107,723	49,187,104
Buildings	21,752,843	21,752,843	109,598,841	84,328,002	131,351,684	106,080,845
Leasehold improvements	8,646	8,646			8,646	8,646
Improvements other than buildings	3,199,721	2,993,001	137,399,177	131,145,372	140,598,898	134,138,373
Machinery and equipment	14,423,868	13,741,480	35,427,841	34,206,137	49,851,709	47,947,617
Vehicles	11,232,742	11,601,199	7,644,186	5,002,140	18,876,928	16,603,339
Infrastructure	660,414,878	650,091,504			660,414,878	650,091,504
Less: accumulated depreciation	(113,584,565)	(108,948,885)	(132,997,762)	(125,263,389)	(246,582,327)	(234,212,274)
Total capital assets net of depreciation	\$625,935,827	\$616,382,507	\$193,407,175	\$183,803,471	\$819,343,002	\$800,185,978

Additional information on the City's capital assets can be located in note 7 on pages 49-50 of this report

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$126,455,000. Of that amount, \$55,050,000 comprises debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

City of Ann Arbor's Outstanding Debt

	2005	2004	2005	2004	2005	2004
	Governmental Activities		Business-type Activities		Total	
Capital Projects Bonds	\$12,760,000	\$14,515,000			\$12,760,000	\$14,515,000
General Obligation Portion of Special Assessment Bonds	895,000	1,025,000			895,000	1,025,000
General Obligation Portion of Special Revenue Bonds	3,790,000	3,925,000			3,790,000	3,925,000
General Obligation Portion of Special Revenue Bonds (DDA)	6,399,450	7,428,064			6,399,450	7,428,064
Special Assessment Bonds	1,530,000	1,930,000			1,530,000	1,930,000
Ann Arbor Building Authority Bonds			28,270,000	29,965,000	28,270,000	29,965,000
Other Bonds			1,405,550	2,586,936	1,405,550	2,586,936
Revenue Bonds			71,405,000	75,240,000	71,405,000	75,240,000
Lease Contracts Payable				400,000		400,000
Other Long-term Debt	3,548,050	3,644,150	672,680	782,252	4,220,730	4,426,402
Total outstanding debt	\$28,922,500	\$32,467,214	\$101,753,230	\$108,974,188	\$130,675,730	\$141,441,402

MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City's total debt decreased by \$10,765,672 or 7.6 percent during the fiscal year. The City issued new debt in the following category:

New Bonds

- 2005-A Water Supply System Refunding \$ 6,795,000

The City has an AAA rating on these bonds from Standard & Poor's. Moody's rated these issues at an Aaa. This issuance was insured.

State statutes limit the amount of the general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City is \$402,917,629, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be located in note 9 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for fiscal year 2005-06:

- The City eliminated 17 FTEs from the 2005-2006 budget.
- Property tax revenues are budgeted to increase 4 percent in fiscal year 2005-06.
- Average salary costs were projected to increase three percent in fiscal year 2005-06.
- Healthcare costs were projected to increase fourteen percent in fiscal year 2005-06.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Finance Department, 100 North Fifth Avenue, P.O. Box 8647, Ann Arbor, Michigan 48107-8647.

CITY OF ANN ARBOR
STATEMENT OF NET ASSETS
June 30, 2005

ASSETS	Primary Government			Component Units -	
	Governmental Activities	Business-type Activities	Total	Ann Arbor Housing Commission	Downtown Development Authority
Cash					
Cash with fiscal agents	\$4,179,158	\$10,713,679	\$14,892,837		
Cash and cash equivalents, held at County of Washtenaw		2,075,782	2,075,782	\$724,125	\$155,267
Equity in pooled cash and investments (Note 4)		4,081	4,081		
Investments, at fair value (Note 4)	67,820,413	51,591,934	119,412,347		
Receivables:	3,485,357	12,907,215	16,392,572		87,740
Taxes				725,505	19,503,430
Accounts	405,411		405,411		
Special assessments	3,738,656	7,267,142	11,005,798		
Accrued interest and dividends	1,789,078		1,789,078	117,506	298,940
Improvement charges	23,983	34,584	58,567		
Loans	5,166	341,450	346,616		
Unbilled district costs	938,787		938,787		
Less: Allowance for uncollectibles	343,732		343,732		
Internal balances	(1,059,381)	(139,351)	(1,198,732)		
Due from component units (Note 5)	2,585,259	(2,585,259)			
Due from primary government (Note 5)	196,389		196,389		
Due from other governments					2,900
Prepaid items	3,717,379		3,717,379		
Deferred charges	2,289,018	238,168	2,527,186		
Inventory, at cost		1,306,896	1,306,896		
Capital assets, at cost:	813,790	456,656	1,270,446	33,562	
Land				9,090	
Buildings	24,340,135	7,374,728	31,714,863	844,637	
Improvements other than buildings	21,752,843	109,598,841	131,351,684	18,070,582	
Leasehold improvements	3,199,721	137,399,177	140,598,898		
Machinery, equipment, and vehicles	8,646				
Vehicles	14,423,868	35,427,841	49,851,709	162,871	
Infrastructure	11,232,742	7,644,186	18,876,928	393,991	
Less: Accumulated depreciation	660,414,878		660,414,878		
Construction in progress	(113,584,565)	(132,997,762)	(246,582,327)	(10,696,658)	
	4,147,559	28,960,164	33,107,723		
Total Assets	717,208,022	277,620,152	994,828,174	10,385,211	20,048,277

(Continued)

CITY OF ANN ARBOR
STATEMENT OF NET ASSETS
June 30, 2005

	Primary Government			Component Units -	
	Governmental Activities	Business-type Activities	Total	Ann Arbor Housing Commission	Downtown Development Authority
LIABILITIES					
Liabilities:					
Accounts payable	\$3,196,463	\$2,859,399	\$6,055,862	\$82,647	\$934,221
Estimated claims payable (Note 11)	5,644,433		5,644,433		
Accrued liabilities	5,863,069	1,195,059	7,058,128	51,456	15,229
Accrued interest payable	312,857	1,621,184	1,934,041		103,777
Due to primary government (Note 5)				171,936	24,453
Due to component unit (Note 5)	2,900		2,900		
Due to other governments	907,602		907,602	128,906	
Deposits	1,470,131	265,153	1,735,284	116,030	
Unearned revenue				123,717	
Non-current liabilities:					
Due within one year:					
Accrued compensated absences	1,048,887	159,972	1,208,859		
Bonds payable	2,460,000	6,769,053	9,229,053		1,085,947
Other debt payable	48,050	309,343	357,393		
Due in more than one year:					
Accrued compensated absences	14,249,427	2,785,930	17,035,357		
Bonds payable	16,453,620	94,311,497	110,765,117		5,313,503
Other debt payable	3,500,000	1,950,384	5,450,384		
Total Liabilities	55,157,439	112,226,974	167,384,413	674,692	7,477,130
NET ASSETS					
Invested in Capital Assets, net of related debt	603,474,157	90,066,898	693,541,055	8,775,423	
Restricted for:					
Capital Projects	10,799,473	10,034,557	20,834,030		
Debt Service	1,621,672	6,442,504	8,064,176		
Endowment (non-expendable)	2,114,724		2,114,724		
Landfill		157,543	157,543		
Unrestricted	44,040,557	58,691,676	102,732,233	935,096	12,571,147
Total Net Assets	\$662,050,583	\$165,393,178	\$827,443,761	\$9,710,519	\$12,571,147

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units	
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Governmental Activities	Primary Government Business-type Activities	Total	Ann Arbor Housing Commission	Downtown Development Authority
Primary Government:									
Governmental activities:									
General government	\$ 12,025,661	\$ 4,138,144	\$ -	\$ -	(\$7,887,517)	\$ -	(\$7,887,517)	\$ -	\$ -
Public safety	43,656,127	11,539,080	623,366	-	(31,493,681)	-	(31,493,681)	-	-
Highways and streets	15,086,160	3,220,105	7,608,448	-	(4,257,607)	-	(4,257,607)	-	-
Culture and Recreation	7,697,210	2,280,083	727,077	-	(4,690,050)	-	(4,690,050)	-	-
Social services	2,431,754	(81,681)	3,286,529	-	773,094	-	773,094	-	-
Transportation (payment to AATA)	8,349,044	83,507	-	-	(8,265,537)	-	(8,265,537)	-	-
Community access television	1,080,660	1,287,582	-	-	206,922	-	206,922	-	-
Information services	626,090	-	-	-	(626,090)	-	(626,090)	-	-
Urban redevelopment and housing	2,993,631	-	-	-	(2,993,631)	-	(2,993,631)	-	-
Public services	7,468,543	-	-	-	(7,468,543)	-	(7,468,543)	-	-
Unallocated depreciation	37,375	-	-	-	(37,375)	-	(37,375)	-	-
Interest on long-term debt	934,007	-	-	1,213,663	279,656	-	279,656	-	-
Total governmental activities	102,386,262	22,466,820	12,245,420	1,213,663	(66,460,359)	-	(66,460,359)	-	-
Business-type activities:									
Water	16,671,468	18,085,363	-	-	-	1,413,895	1,413,895	-	-
Sewer	14,019,208	18,330,302	-	-	-	4,311,094	4,311,094	-	-
Parking	2,368,344	3,462,633	-	-	-	1,094,289	1,094,289	-	-
Market	115,892	131,348	-	-	-	15,456	15,456	-	-
Golf courses	1,152,354	1,042,785	-	-	-	(109,569)	(109,569)	-	-
Airport	860,515	830,657	-	-	-	(29,858)	(29,858)	-	-
Stormwater	1,662,144	3,529,955	-	-	-	1,867,811	1,867,811	-	-
Hydropower	259,773	-	-	-	-	(259,773)	(259,773)	-	-
Solid Waste	8,086,147	478,493	-	-	-	(7,607,654)	(7,607,654)	-	-
Total business-type activities	45,195,845	45,891,536	-	-	-	695,691	695,691	-	-
Total primary government	\$ 147,582,107	\$ 68,358,356	\$ 12,245,420	\$ 1,213,663	\$ (66,460,359)	\$ 695,691	\$ (65,764,668)	-	-
Component units:									
Housing Commission	\$13,954,355	\$728,888	\$12,832,501	-	-	-	-	(392,966)	-
Downtown Development Authority	13,388,689	11,638,329	-	-	-	-	-	-	(1,750,360)
Total component units	\$27,343,044	\$12,367,217	\$12,832,501	-	-	-	-	(392,966)	(1,750,360)
General revenues:									
Taxes:									
Property taxes, levied for general purpose	-	-	-	-	51,423,077	10,011,080	61,434,157	-	3,330,958
Property taxes, levied for debt service	-	-	-	-	8,029,733	-	8,029,733	-	-
State-shared revenues and grants (unrestricted)	-	-	-	-	11,674,762	-	11,674,762	-	-
Investment income	-	-	-	-	2,181,348	1,651,492	3,832,840	31,099	601,221
Other	-	-	-	-	367,458	-	367,458	-	17,244
Total general revenues	-	-	-	-	73,676,378	11,662,572	85,338,950	31,099	3,949,423
Transfers	-	-	-	-	1,870,457	(1,870,457)	-	-	-
Total general revenues and transfers	-	-	-	-	75,546,835	9,792,115	85,338,950	31,099	3,949,423
Change in net assets	-	-	-	-	9,086,476	10,487,806	19,574,282	(361,867)	2,199,063
Net assets at beginning of year, as restated (Note 19)	-	-	-	-	652,964,107	154,905,372	807,869,479	10,072,386	10,372,084
Net assets at end of year	-	-	-	-	\$ 662,050,583	\$ 165,393,178	\$ 827,443,761	\$9,710,519	\$12,571,147

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	General	Street Repair Millage	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$2,996,114	\$34,727	\$1,052,820	\$4,083,661
Equity in pooled cash and investments (Note 4)	5,599,036	13,581,077	36,643,619	55,823,732
Investments, at fair value (Note 4)			3,485,357	3,485,357
Receivables:				
Taxes	321,529	40,653	43,229	405,411
Accounts	2,505,064	207,798	1,021,405	3,734,267
Special assessments			1,789,078	1,789,078
Accrued interest and dividends			23,983	23,983
Improvement charges			5,166	5,166
Loans			938,787	938,787
Unbilled district costs			343,732	343,732
Less: Allowance for uncollectibles	(798,763)	(172,823)	(83,406)	(1,054,992)
Due from other funds (Note 5)	3,101,342	2,185,811	84,620	5,371,773
Due from component units (Note 5)	189,479		6,910	196,389
Due from other governments	1,589,878		2,127,501	3,717,379
Prepaid items	852,655		1,486	854,141
Inventory, at cost	14,886			14,886
Total Assets	\$16,371,220	\$15,877,243	\$47,484,287	\$79,732,750

(Continued)

CITY OF ANN ARBOR
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	General	Street Repair Millage	Other Governmental Funds	Total Governmental Funds
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts payable				
Accrued liabilities	\$865,684	\$1,104,015	\$962,713	\$2,932,412
Due to other funds (Note 5)	1,392,389	41,304	291,085	1,724,778
Due to component unit (Note 5)	474,806	314,265	1,333,087	2,122,158
Due to other governments	2,900			2,900
Deposits	592,452		315,150	907,602
Deferred revenue	1,445,942		24,189	1,470,131
Accrued compensated absences (Note 9)			3,202,903	3,202,903
	936,680	1,996	86,445	1,025,121
Total Liabilities	5,710,853	1,461,580	6,215,572	13,388,005
Fund balances:				
Reserved for prepaid items				
Reserved for encumbrances	852,655		1,486	854,141
Reserved for endowment	52,537	4,314,780	979,798	5,347,115
Reserved for inventories			2,114,724	2,114,724
Unreserved balances:	14,886			14,886
Designated for subsequent year's expenditures				
Undesignated	105,904			105,904
Undesignated, nonmajor capital projects funds	9,634,385	10,100,883		19,735,268
Undesignated, nonmajor debt service funds			10,799,473	10,799,473
Undesignated, nonmajor special revenue funds			1,621,672	1,621,672
			25,751,562	25,751,562
Total Fund Balances	10,660,367	14,415,663	41,268,715	66,344,745
Total Liabilities and Fund Balances	\$16,371,220	\$15,877,243	\$47,484,287	\$79,732,750

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR
GOVERNMENTAL FUNDS
RECONCILIATION OF FUND BALANCE ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Fund balances of governmental funds	\$ 66,344,745
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets have not been included as financial resources in governmental fund activity.	728,913,943
Depreciation of capital assets.	(105,909,243)
Long-term debt and compensated absences are not due and payable in the current period and therefore have not been included in the governmental funds.	
Bonds payable	(22,461,670)
Compensated absences	(13,963,207)
Contingency for Emerald Ash Borer- liability was not due and payable in the current period and therefore has not been included in the governmental funds.	(4,100,000)
Accrued interest payable for the current portion of interest due on bonds has not been reported in the governmental funds.	(312,857)
Deferred revenue in governmental funds is susceptible to full accrual on the entity-wide statements.	3,202,903
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The assets and liabilities of the internal service funds must be added to the statement of net assets.	10,335,969
Net assets of governmental activities	\$ <u>662,050,583</u>

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005

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	General	Street Repair Millage Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$43,580,128	\$7,842,949	\$8,029,733	\$59,452,810
Special assessments/improvement charges			130,872	130,872
Licenses, permits and registrations	1,536,586		2,178,826	3,715,412
Federal grants	82,595		3,760,102	3,842,697
State shared revenues and grants	11,567,921	99,922	8,409,642	20,077,485
Charges for services	6,970,007	388,399	1,985,080	9,343,486
Fines and forfeits	5,545,011		242,201	5,787,212
Interest and penalties			50,227	50,227
Investment income	573,943	363,785	892,287	1,830,015
Rentals	27,482		31,000	58,482
Contributions and donations			232,206	232,206
Sale of property and equipment	12,759		5,611	18,370
Intra-governmental sales			57,020	57,020
Miscellaneous	174,819	515	192,124	367,458
Total Revenues	70,071,251	8,695,570	26,196,931	104,963,752
Expenditures:				
Current:				
Mayor and Council	276,448			276,448
Administration	452,527		1,662,316	2,114,843
Clerk/Elections	715,356			715,356
Planning	411,954			411,954
Law enforcement	23,077,350		374,875	23,452,225
Fire department	11,107,162			11,107,162
District court	3,315,382			3,315,382
Building department	1,735,850		1,678,350	3,414,200
Highways and streets		10,676,216	5,361,595	16,037,811
Social services	1,788,500			1,788,500
Parks and recreation	3,216,877		4,950,090	8,166,967
Park operations and forestry	3,229,995			3,229,995
Historic district commission	38,149			38,149
Public transportation	8,349,044			8,349,044
General government	10,239,215			10,239,215
Community access television			1,058,726	1,058,726
Urban redevelopment and housing			2,993,631	2,993,631
Information services			430,282	430,282
Capital outlay			2,438,127	2,438,127
Debt service:				
Principal retirement			2,516,100	2,516,100
Interest and fiscal charges			971,713	971,713
Total Expenditures	67,953,809	10,676,216	24,435,805	103,065,830
Excess of Revenues over (under) Expenditures	2,117,442	(1,980,646)	1,761,126	1,897,922

(Continued)

CITY OF ANN ARBOR
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2005

	<u>General</u>	<u>Street Repair Millage Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Other Financing Sources (Uses):				
Transfers in	\$3,530,495	\$3,914,206	\$4,339,782	\$11,784,483
Transfers out	<u>(4,451,084)</u>	<u>(344,912)</u>	<u>(4,781,719)</u>	<u>(9,577,715)</u>
Total Other Financing Sources (Uses)	<u>(920,589)</u>	<u>3,569,294</u>	<u>(441,937)</u>	<u>2,206,768</u>
Net change in fund balances	1,196,853	1,588,648	1,319,189	4,104,690
Fund Balances - July 1, 2004, as restated	<u>9,463,514</u>	<u>12,827,015</u>	<u>39,949,526</u>	<u>62,240,055</u>
Fund Balances - June 30, 2005	<u><u>\$10,660,367</u></u>	<u><u>\$14,415,663</u></u>	<u><u>\$41,268,715</u></u>	<u><u>\$66,344,745</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds	\$ 4,104,690
Amounts reported for governmental activities in the statement of activities differs from the amounts reported in the statement of revenue, expenditures, and changes in fund balances because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense.	17,000,436
Depreciation in the current period.	(6,642,988)
Governmental funds report revenue from sale of assets. However, an adjustment is needed to reflect loss on sale of capital assets	(569,289)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	2,516,100
Accrued Interest for Debt. This is the net change in accrued interest for the current period.	40,690
Amortization of bond discount is an expense on statement of activities	(2,984)
The changes in accrual for compensated absences expenses reported in the statement of activities require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(629,854)
Accrual for Emerald Ash Borer liability in the Statement of Net Assets is not susceptible to accrual in the governmental funds	(4,100,000)
Deferred revenue in governmental funds is susceptible to full accrual on the entity-wide statements.	1,001,110
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The net revenues (expenses) of the internal service funds are reported with governmental activities.	(3,631,435)
Change in net assets of governmental activities	<u>\$ 9,086,476</u>

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2005

Business-Type Activities
Enterprise Funds

ASSETS	Water Supply System	Sewage Disposal System	Parking System	Market	Golf Courses	Airport	Stormwater Sewer System	Hydroelectric Power System	Solid Waste	Total	Governmental Activities Internal Service Funds
Current Assets											
Cash	\$4,773,255	\$4,718,837	\$627,152	\$3,225							
Cash with fiscal agents		2,075,782				\$23,079	\$391,215	\$1,213	\$175,703	\$10,713,679	\$95,497
Cash and cash equivalents, held at County of Washtenaw		4,081								2,075,782	
Equity in pooled cash and investments	7,577,836	34,170,078	1,025,094	494,369	30,592	208,519	2,448,242	313,029	5,324,175	4,081	
Investments	3,177,711	8,401,810	1,297,000						30,694	51,591,934	11,996,681
Receivables:										12,907,215	
Accounts	3,150,086	3,266,540	16,125	450	11,189	78,521	716,084		28,147	7,267,142	4,389
Improvement charges	117,681	193,304					16,350		14,115	341,450	
Interest receivable	3,701	28,453	2,430								
Less: Allowance for uncollectibles	(52,374)	(6,840)	(16,125)	(450)	(2,463)	(29,112)	(17,884)		(14,103)	34,584	
Due from other funds	153,552	1,218,259		800			43,124		(139,351)	(139,351)	(4,389)
Prepaid items	99,635	64,529	104	665	8,282	6,267	23,253		45,864	1,461,599	272,280
Deferred charges	482,122	458,486	343,431		16,050		6,807		35,433	238,168	1,434,877
Inventory, at cost	370,573	60,387			25,696					1,306,896	
Total Current Assets	19,853,778	54,653,706	3,295,211	499,059	89,346	287,274	3,627,191	314,242	5,640,028	88,259,835	798,904
Capital assets, at cost:											14,598,239
Land	412,830	339,582	4,522,293	84,120	693,739	708,927	15,000		598,237	7,374,728	194,707
Buildings	8,538,769	31,500,770	60,678,849	332,206	506,024	1,871,570			5,624,446	109,598,841	500,665
Improvements other than buildings	73,914,421	51,293,768	523,891		2,305,074	143,404	4,312,319	546,207	44,453	137,399,177	62,407
Machinery and equipment	9,369,750	22,371,584	172,578		789,302	261,306	213,995	4,861,847	2,249,326	35,427,841	2,578,861
Vehicles	641,055	983,983			20,694	56,041	373,348		5,569,065	7,644,186	7,269,809
Less: Accumulated depreciation	(33,752,392)	(72,088,548)	(14,440,606)	(136,190)	(1,358,582)	(2,033,993)	(730,656)	(4,153,392)	(4,303,403)	(132,997,762)	(7,675,322)
Construction in progress	7,505,792	20,036,832		19,700			64,038		1,333,802	28,960,164	
Net Capital Assets	66,630,225	54,437,971	51,457,005	299,836	2,956,251	1,007,255	4,248,044	1,254,662	11,115,926	193,407,175	2,931,127
Total Assets	86,484,003	109,091,677	54,752,216	798,895	3,045,597	1,294,529	7,875,235	1,568,904	16,755,954	281,667,010	17,529,366

(Continued)

CITY OF ANN ARBOR
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2005

Business-Type Activities
Enterprise Funds

LIABILITIES

Current Liabilities (payable from current assets):

Water Supply System	Sewage Disposal System	Parking System	Market	Golf Courses	Airport	Stormwater Sewer System	Hydroelectric Power System	Solid Waste	Total	Governmental Activities Internal Service Funds
Accounts payable	\$630,213	\$1,508,447								
Estimated claims payable			\$1,768	\$8,354	\$13,089	\$8,910		\$690,618	\$2,859,399	\$264,051
Accrued liabilities	899,616	129,257	737	1,541	36,388	29,649		84,366	1,195,059	5,644,433
Accrued interest payable	500,618	639,378	468,473		10,207	2,508			1,621,184	38,291
Due to other funds	1,423,934	725,757			1,031,948	7,997			4,046,858	-
Deposits	263,566	987	2,000			688,856		166,366	265,153	936,636
Revenue bonds payable - current portion	3,090,000	1,440,000							4,655,000	
Ann Arbor Building Authority bonds payable - current portion			1,675,000		95,000	125,000			1,770,000	
Other bonds payable - current portion			344,053						344,053	
Other debt-current portion	35,000	75,000		39,790		159,553			309,343	
Accrued compensated absences	75,995	66,200		889		9,976			159,972	-
Total Current Liabilities (payable from current assets)	6,918,942	4,585,026	2,488,263	6,198	1,221,687	42,103	1,022,452	941,350	17,226,021	23,766

Long-Term Liabilities:

Revenue bonds - non-current portion	34,175,000	32,160,000							66,750,000	
Ann Arbor Building Authority bonds payable - non-current portion			25,525,000		975,000	415,000			26,500,000	
Other bonds payable - non-current portion			1,061,497						1,061,497	
Other long-term debt - non-current portion	347,500	964,572		145,410		492,902			1,950,384	
Accrued compensated absences - non-current portion	1,176,949	767,359		77,812	115,161	280,209		367,556	2,785,930	
Total Long-Term Liabilities	35,699,449	33,891,931	26,586,497	884	1,198,222	115,161	1,188,111	367,556	99,047,811	286,220
Total Liabilities	42,618,391	38,476,957	29,074,760	7,082	2,419,909	157,264	2,210,563	1,308,906	116,273,832	7,193,397

NET ASSETS

Invested in Capital Assets, net of related debt	28,982,725	19,798,399	22,851,455	299,836	1,701,051	1,007,255	3,055,589	1,254,662	11,115,926	90,066,898	2,931,127
Restricted for debt service	3,726,500	2,662,004					54,000			6,442,504	
Restricted for equipment replacement	2,203,129	6,545,232					530,523	501,208	254,465	10,034,557	
Reserved for landfill									157,543	157,543	
Unrestricted (deficit)	8,953,258	41,609,085	2,826,001	491,977	(1,075,363)	130,010	2,024,560	(186,966)	3,919,114	58,691,676	7,404,842
TOTAL NET ASSETS	\$43,865,612	\$70,614,720	\$25,677,456	\$791,813	\$625,688	\$1,137,265	\$5,664,672	\$1,568,904	\$15,447,048	\$165,393,178	\$10,335,969

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2005

	Business-Type Activities Enterprise Funds									Governmental Activities Internal Service Funds	
	Water Supply System	Sewage Disposal System	Parking System	Market	Golf Courses	Airport	Stormwater Sewer System	Hydroelectric Power System	Solid Waste	Total	
Operating Revenues:											
Charges for services	\$18,073,071	\$18,316,507	\$3,462,633	\$131,348	\$1,042,785	\$830,657	\$3,529,955		\$478,493	\$45,865,449	\$20,492,189
Miscellaneous revenue											93
Total Operating Revenues	18,073,071	18,316,507	3,462,633	131,348	1,042,785	830,657	3,529,955		478,493	45,865,449	20,492,282
Operating Expenses:											
Personal services	5,705,743	3,623,241		49,622	554,469	400,774	862,843		2,923,011	14,119,703	1,967,242
Municipal service charge	789,924	623,616	22,752	18,108	185,148	96,084	62,916		514,908	2,313,456	576,588
Overhead charges from Water Supply System		122,316					99,996			222,312	
Materials and supplies	1,725,103	746,930		13,361	135,195	35,717	45,143		91,543	2,792,992	59,328
Utilities	1,286,381	1,100,084		6,345	29,215	60,572	9,477		239,297	2,731,371	62,812
Insurance	172,248	1,041,516									
Contractual services	732,998	1,182,972		72	3,108	77,748	2,088		75,432	1,372,212	18,272,024
Maintenance					4,361	45,204	201,230		2,101,520	4,268,285	106,931
Professional fees	304,628	122,728		2,242	26,556	14,838	12,827		225,687	709,506	44,443
Rent	1,171,102	334,610		7,573	350	25,012	131,139	238	106,371	1,776,395	205,002
Miscellaneous	279,925	405,887		4	3,042	58,205	628		718,365	1,466,056	
Cost of goods sold	61,090	363,752		10,267	11,115	4,224	21,257		99,960	571,665	14,746
Depreciation and amortization	2,748,942	2,639,675	888,733	8,298	128,160	42,137	144,729	245,712	988,835	7,835,221	1,864,690
Total Operating Expenses	14,978,084	12,307,327	911,485	115,892	1,080,719	860,515	1,594,273	245,950	8,084,929	40,179,174	24,181,153
Operating Income (Loss)	3,094,987	6,009,180	2,551,148	15,456	(37,934)	(29,858)	1,935,682	(245,950)	(7,606,436)	5,686,275	(3,688,871)
Nonoperating Revenues (Expenses):											
Interest income	292,555	1,034,949	48,574	9,066		5,846	48,641	14,818	197,043	1,651,492	301,106
Net gain on retirement of capital assets	12,292	13,795								26,087	
Interest expense and fiscal charges	(1,693,384)	(1,704,352)	(1,456,859)		(71,635)		(67,871)	(13,823)	(1,218)	(5,009,142)	
Lease charges in lieu of interest		(7,529)								(7,529)	92,639
Property taxes									10,011,080	10,011,080	
Total Nonoperating Revenues (Expenses)	(1,388,537)	(663,137)	(1,408,285)	9,066	(71,635)	5,846	(19,230)	995	10,206,905	6,671,988	393,745
Income (Loss) Before Transfers	1,706,450	5,346,043	1,142,863	24,522	(109,569)	(24,012)	1,916,452	(244,955)	2,600,469	12,358,263	(3,295,126)
Transfers in	1,713,985	230,000					108,064		1,415,802	3,467,851	2,114,031
Transfers out	(1,274,183)	(1,427,498)					(2,885)	(1,135,215)	(400,000)	(1,098,527)	(2,450,342)
Net Transfers In (Out)	439,802	(1,197,498)					(2,885)	(1,027,151)	(400,000)	317,275	(336,311)
Changes in Net Assets	2,146,252	4,148,545	1,142,863	24,522	(109,569)	(26,897)	889,301	(644,955)	2,917,744	10,487,806	(3,631,437)
Net Assets - July 1, 2004, as restated	41,719,360	66,466,175	24,534,593	767,291	735,257	1,164,162	4,775,371	2,213,859	12,529,304	154,905,372	13,967,406
Net Assets - June 30, 2005	\$43,865,612	\$70,614,720	\$25,677,456	\$791,813	\$625,688	\$1,137,265	\$5,664,672	\$1,568,904	\$15,447,048	\$165,393,178	\$10,335,969

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2005

Business-Type Activities
Enterprise Funds

	Water Supply System	Sewage Disposal System	Parking System	Market	Golf Courses	Airport	Stormwater Sewer System	Hydroelectric Power System	Solid Waste	Total	Governmental Activities Internal Service Funds
Cash flow from operations:											
Receipts from customers	\$17,989,935	\$18,219,755	\$3,463,370	\$132,303	\$1,039,883	\$832,322	\$3,362,618	\$8,093	\$450,334	\$45,498,613	\$20,511,975
Receipts from interfund services provided	1,277,935	588,695	362	10,096	9,804	9,428	597,186		130,458	2,623,964	830,603
Payments to suppliers	(7,081,837)	(5,591,205)	(37,711)	(63,222)	(407,330)	(427,582)	(604,197)	(67,264)	(3,517,898)	(17,798,246)	(18,811,441)
Payments to employees	(5,813,049)	(3,707,279)		(52,613)	(560,101)	(397,321)	(662,803)	(1,094)	(2,471,089)	(13,665,349)	(2,005,330)
Payments for interfund services used		(1,069,097)	(139,830)		(78,384)			(1,812)	(29,887)	(1,319,010)	181,679
Net cash provided by (used in) operating activities	6,372,984	8,440,869	3,286,191	26,564	3,872	16,847	2,692,804	(62,077)	(5,438,082)	15,339,972	707,486
Cash flows from noncapital financing activities:											
Transfers in	1,713,985	230,000					108,064		1,415,802	3,467,851	2,114,031
Transfers out	(1,274,183)	(1,427,498)				(2,885)	(1,135,215)	(400,000)	(1,098,527)	(5,338,308)	(2,450,342)
Property taxes									10,011,080	10,011,080	
Net cash provided by (used in) noncapital financing activities	439,802	(1,197,498)				(2,885)	(1,027,151)	(400,000)	10,328,355	8,140,623	(336,311)
Cash flows from capital and related financial activities:											
Proceeds from sales of bonds and notes	7,207,500	1,074,572									
Acquisition and construction of capital assets	(2,582,946)	(9,444,488)	(36,381)							8,282,072	(811,866)
Principal paid on revenue bonds, maturities, capital leases and notes	(9,420,000)	(1,560,000)	(1,946,386)			(5,000)	(499,637)	(44,747)	(4,827,441)	(17,440,640)	
Interest paid on bonds, notes, and capital leases	(1,857,721)	(1,228,387)	(1,465,413)		(133,684)		(15,913)	(840,000)		(13,915,983)	-
Proceeds from sale of equipment	14,007	13,795			(70,885)		(66,925)	(28,471)	(1,218)	(4,719,020)	(275)
Net cash provided by (used in) investing activities	(6,639,160)	(11,144,508)	(3,448,180)		(204,569)	(5,000)	(582,475)	(913,218)	(4,828,659)	27,802	131,998
Cash flows from investing activities:											
Purchase of investment securities	(6,576,080)	(10,148,207)									(680,143)
Sale of investment securities	9,923,450	21,248,066	122,329							31,293,845	
Interest and dividends on investments	292,855	1,047,795	47,290	9,066		5,846	48,641	14,818	(1,564)	1,663,354	301,106
Net cash provided by (used in) investing activities	3,640,225	12,147,654	169,619	9,066		5,846	48,641	14,818	197,043	16,231,348	301,106
Net increase (decrease) in cash and cash equivalents	3,813,851	8,246,517	7,630	35,630	(200,697)	14,808	1,131,819	(1,360,477)	257,093	11,946,174	(7,862)
Cash and cash equivalents at beginning of the year	8,537,240	32,722,261	1,644,616	461,964	231,289	216,790	1,707,638	1,674,719	5,242,785	52,439,302	12,100,040
Cash and cash equivalents at end of the year	\$ 12,351,091	\$ 40,968,778	\$ 1,652,246	\$ 497,594	\$ 30,592	\$ 231,598	\$ 2,839,457	\$ 314,242	\$ 5,499,878	\$ 64,385,476	\$ 12,092,178

(Continued)

CITY OF ANN ARBOR
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2005

	Business-Type Activities Enterprise Funds									Governmental Activities Internal Service Funds	
	Water Supply System	Sewage Disposal System	Parking System	Market	Golf Courses	Airport	Stormwater Sewer System	Hydroelectric Power System	Solid Waste	Total	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:											
Net operating income (loss)	\$ 3,094,987	\$ 6,009,180	\$ 2,551,148	\$ 15,456	\$ (37,934)	\$ (29,858)	\$ 1,935,682	\$ (245,950)	\$ (7,606,436)	\$ 5,686,275	(\$3,688,871)
Adjustments not affecting cash:											
Depreciation and amortization	2,748,942	2,639,675	888,733	8,298	128,160	42,137	144,729	245,712	988,835	7,835,221	1,007,347
Allowance for uncollectible accounts	26,839	1,629	(2,390)	(65)	582	1,107	11,293		14,103	53,098	(26,528)
(Increase) decrease in assets and increase (decrease) in liabilities											
Accounts receivable											
Due from other funds	(109,975)	(98,381)	2,390	1,020	(3,484)	558	(178,630)			(420,671)	46,221
Inventory	96,142	(1,069,097)	362	8,160	9,804	1,643	19,641	8,093	(42,262)	(963,232)	183,184
Prepaid items	(67,303)	4,444			(1,104)				(29,887)	(63,963)	2,185
Accounts payable	(99,635)	(64,529)	(104)	(665)	(8,282)	(6,267)	(13,644)		(35,433)	(228,559)	(89,142)
Accrued compensated absences	(419,018)	512,304	(14,855)	(4,540)	1,230	(3,707)	(3,676)		690,618	691,330	(364,611)
Estimated claims payable	(120,426)	(51,926)		(1,673)	3,962	7,571	200,652	(67,026)	367,556	405,716	8,598
Accrued liabilities											
Due to other funds	13,120	(32,112)	737	(1,318)	(9,594)	(4,118)	(612)		84,366	49,375	2,846,691
Due to other governments	1,181,793	588,695	(139,830)	1,936	(78,384)	7,785	577,545	(1,094)	130,458	2,268,186	(46,686)
Deposits	27,518	987		(45)	(1,084)	(4)	(176)	(1,812)		28,329	829,098
Net cash provided by (used in) operating activities	\$ 6,372,984	\$ 8,440,869	\$ 3,286,191	\$ 26,564	\$ 3,872	\$ 16,847	\$ 2,692,804	\$ (62,077)	\$ (5,438,082)	\$ 15,339,972	\$ 707,486

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR
ALL FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2005

ASSETS	Employees' Benefit Trust Funds	Agency Funds
Cash		
Equity in pooled cash and investments	\$3,842,722	\$1,308,496
Investments, at fair value	1,426,088	
Short term investments	7,914,011	
U.S. Government obligations	51,470,904	
Municipal bonds	337,586	
Collateralized Mortgage Obligations	8,792,471	
Domestic corporate bonds	45,197,817	
Domestic stocks	277,279,857	
Real Estate-Direct & funds	39,328,300	
Accrued interest and dividends	1,104,747	
Due from other governments	40,737	5,133
Property, plant & equipment (net of depreciation of \$23,463)	4,934	
Total Assets	<u>\$436,740,174</u>	<u>\$1,313,629</u>
LIABILITIES		
Liabilities:		
Accounts payable		
Accrued liabilities	\$3,645,148	\$324,621
Accrued compensated absences	8,789	
Due to other governments	103,297	
Deposits		904,908
Total Liabilities	<u>3,757,234</u>	<u>84,100</u>
Net Assets:		
Held in Trust for Pension Benefits and Other Purposes	<u>\$432,982,940</u>	<u>\$1,313,629</u>

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended June 30, 2005

ADDITIONS	<u>Employees' Benefit Trust Funds</u>
Investment income:	
Net realized and unrealized appreciation in fair value of investments	
Interest	\$31,234,112
Dividends	5,444,232
	<u>1,954,119</u>
Total investment income	38,632,463
Less investment expense	<u>1,833,598</u>
Net investment earnings	<u>36,798,865</u>
Contributions:	
Employer	5,143,684
Plan member	2,779,966
	<u>7,923,650</u>
Total contributions	<u>7,923,650</u>
Total additions	<u>44,722,515</u>
DEDUCTIONS	
Benefits	21,510,124
Refund of contributions	515,496
Administrative expense	3,490,717
	<u>25,516,337</u>
Total deductions	<u>25,516,337</u>
Change in net assets	19,206,178
Net assets held in trust for benefits at beginning of year	<u>413,776,762</u>
Net assets held in trust for benefits at end of year	<u><u>\$432,982,940</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

1. FINANCIAL REPORTING ENTITY

The City of Ann Arbor, Michigan (the City) was incorporated in 1851. On April 9, 1956, a City Charter (home rule) was ratified by electors in accordance with Michigan law. The City operates under a Council-Administrator form of government and provides the following services as authorized by its charter: public safety (police, fire, and building inspection), traffic control and street maintenance, refuse collection, water and wastewater, parks and recreation, public improvements, planning and zoning, airport, urban redevelopment and housing, golf courses, and general administrative services. The City's population is approximately 114,061 people within an area of 28.6 square miles. The component units discussed below are included in the City's financial reporting entity because of the significance of their operational or financial relationships with the City. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," these financial statements present the City (the primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes financial accountability and whether the financial statements would be misleading if data were not included.

Blended Component Unit. The Ann Arbor Building Authority is presented as a blended component unit. Commissioners of the Authority are appointed by the Mayor and confirmed by City Council. Although it is legally separate from the City, the Authority is reported as if it were part of the primary government because its sole purpose is to issue revenue bonds to finance major capital construction by the City.

Discretely Presented Component Units. The Component Unit columns in the government-wide financial statements include the financial data of the City's other Component Units. They are reported in separate columns to emphasize that they are legally separate from the City. The following Component Units are included in the reporting entity because the primary government is financially accountable and is able to impose its will on the organization.

Downtown Development Authority (DDA). The DDA was created to finance rehabilitation and redevelopment in the downtown area. Commissioners of the DDA are appointed by the Mayor and approved by City Council. Development plans are approved by Council and Council must approve all modifications to the plan. Through part of the fiscal year, the City maintained all accounting records for the DDA, whose primary source of funding is from Tax Increment Financing revenues. Bonds secured by those revenues are issued by the City on behalf of the DDA, which does not have the ability to issue debt.

Ann Arbor Housing Commission. The Housing Commission was created to provide low-income housing for City residents. Commissioners of the Housing Commission are appointed by the Mayor and approved by City Council. City Council is notified of all grant applications and any changes to contracts with the Department of Housing and Urban Development, the Commission's primary funding source. The Commission maintains its own accounting records and bank accounts. The City provides limited, special purpose financial support to the Commission, subject to request and Council approval, and is contingently liable for its debt.

1. FINANCIAL REPORTING ENTITY (Concluded)

Separate combining statements for the discretely presented Component Units are not presented as each Component Unit is shown as a separate column on the government wide financial statements. Complete financial statements of the individual Component Units can be requested from the City of Ann Arbor Finance Department.

Related Organizations. The Ann Arbor Transportation Authority (AATA) and the Ann Arbor Economic Development Corporation (EDC), are not included in the financial reporting entity. The members of the governing board of each are appointed by the Mayor and confirmed by the City Council, but the City's accountability for these organizations does not extend beyond making the appointments. The EDC, whose purpose is to foster business development within the City, and which has issued bonds bearing the City's tax-exempt status (for which the City is not contingently liable), had, as of June 30, 2005, assets and a fund balance of \$97,132.

2. DESCRIPTION OF CITY OPERATIONS AND FUND TYPES

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental Accounting Standards Board Statement #34, (hereafter known as GASB #34) sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section. The City reports the following major funds:

Governmental Funds.

General Fund. This fund is the general operating fund of the City; it is used to account for all financial resources not required to be accounted for in another fund.

Street Repair Millage Fund. This fund is used to account for the proceeds of the street repair millage.

Proprietary Funds.

Water Supply System - To account for the provision of treated water of the City and some township residents.

Sewage Disposal System - To account for the collection and treatment of the sewage of the City and some township residents.

Parking System - To account for the operations of the City's parking structures, lots and meters.

Market - To account for the costs of operating the City's Farmers' Market.

Golf Courses - To account for the operation of the City's two 18-hole golf courses.

Airport - To account for the operation of the City's airport including the rental of hangars and tie-down space.

Stormwater Sewer System - To account for the collection and disposal of the City's stormwater.

Solid Waste - To account for the collection and disposal of the City's solid waste and recycling.

Hydroelectric Power System - To account for sale of power from two City power generation dams.

2. DESCRIPTION OF CITY OPERATIONS AND FUND TYPES (Concluded)

Non-Current Governmental Assets/Liabilities: GASB Statement #34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the governmental activities column in the government-wide Statement of Net Assets.

Other Fund Types:

Internal Service Funds. These funds are used to account for goods or services provided by the Central Stores, Fleet Services, Insurance, or Park Headquarters to service areas of the City, or to other governments, on a cost-reimbursement basis.

Employee Retirement/Benefits Funds. To account for the accumulation of resources to be used for retirement pension and annuity payments. Resources are contributed by employees at rates fixed by law and by the City at amounts determined by an annual actuarial study.

Permanent Fund. To account for monies provided by a private bequest to finance tree planting and maintenance for the Elizabeth Dean Fund. The principal amount of the bequest is to remain intact and invested. Investment earnings are used for the above stated purposes.

Agency Funds. These funds are used to account for assets held by the City as an agent for individuals, private organizations, or other governments. Agency fund are, by nature, custodial; therefore, operation results are not measured. Such funds include: Current Tax, Delinquent Tax, Contractor's Retainage and Fifteenth District Court.

3. SIGNIFICANT ACCOUNTING POLICIES

Government-Wide and Fund Financial Statements. The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. While the previous financial reporting model emphasized fund types (the total of all funds of a particular type), in the new financial reporting model the focus is on either the City as a whole, or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net costs per functional category (Police, Fire, Public Services, etc.), which are otherwise being supported by general government revenues (property taxes, certain intergovernmental revenues, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function (Police, Fire, Public Services, etc.) or a business-type activity. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. Amounts reported as program revenue include 1) charges for services, 2) federal and state operating grants, and 3) special assessments.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The net cost (by function or business-type activity) is normally covered by general revenue (property taxes, intergovernmental revenues, interest income, etc.). Historically, the previous financial reporting model did not summarize or present net cost by function or activity.

The City does not currently employ an indirect cost allocation system. An administrative service fee is charged by the General Fund to the other operating funds, that is eliminated like a reimbursement (reducing the revenue and expense in the General Fund), to address administrative services (finance, personnel, purchasing, legal, technology management, etc.) provided.

This government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are, in substance, very similar to the financial statements presented in the previous financial reporting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) are summarized into a single column.

The governmental funds major fund statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the City's actual experience conforms to the budget fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental activities column of the government-wide presentation.

Internal service funds of the City (which provide services primarily to other funds of the City) are presented, in summary form, as part of the proprietary fund financial statement. Since the principal users of the internal services are the City's governmental activities, financial statements of internal service funds are consolidated into the governmental activities column when presented at the government-wide level. The costs of these services are allocated to the appropriate functional activity (Police, Fire, Public Services, etc.).

When appropriate, surplus or deficits in the Internal Service funds may be allocated back to customers at the entity-wide Statement of Activities. This creates a reconciling item between the business-type activities column and the Proprietary Funds fund level statements as reflected on the bottom of each statement.

The City's fiduciary funds (which have been redefined and narrowed in scope) are presented in the fund financial statements by type (pension and agency). Since, by definition, these assets are being held for the benefit of a third party (other legal governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

The focus of the Statement #34 model is on the City as a whole and the fund financial statements. The focus of the Fund Financial Statements is on the major individual funds of the governmental and business-type categories, as well as the fiduciary presentation, and the statements provide valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting. The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). *Measurable* means the amount of the transaction can be determined and *available* means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Major sources of revenue considered susceptible to accrual are community development grants, state shared revenues and grants, delinquent property taxes collected during the fiscal year or within a period of 60 days thereafter, and interest on investments.

Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. The government-wide financial statements and the proprietary, fiduciary and component unit financial statements are presented on an accrual basis of accounting. The governmental funds in the fund financial statements are presented on a modified accrual basis.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement #33 (the City may act as either provider or recipient), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met, should, under most circumstances, be reported as advances by the provider and deferred revenue by the recipient.

The City reports deferred revenue on its balance sheet. Deferred revenues arise when a potential revenue does not meet both the *measurable* and *available* criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received before qualifying expenditures are incurred. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

The measurement focus of the governmental funds is based on determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than net income determination.

The Enterprise and Fiduciary Funds are maintained on the accrual basis. These Funds' revenues are recognized when earned, and expenses recorded when incurred. Unbilled Water and Sewer Fund utility service provided is recorded as receivables and revenue at year-end. The measurement focus for enterprise funds is based on cost of service and maintenance of capital. Enterprise funds follow Generally Accepted Accounting Principles (GAAP) prescribed by the Governmental Accounting Standards Board (GASB) and all Financial Accounting Standards Board standards issued prior to November 30, 1989. The City also has the option of following subsequent private-sector guidance for business-type activities and enterprise funds to the extent that the guidance does not contradict guidance of the GASB. The City has elected not to follow subsequent private-sector guidance. In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved "Basic Financial Statements and Management Discussion and analysis for State and Local Governments" (Statement #34). This Statement provides for the most significant change in financial reporting in over twenty years and is scheduled for a phased implementation (based on size of government) starting with fiscal years ending 2002 (for larger governments). As part of this Statement, there is a new reporting requirement regarding the local government's infrastructure (roads, bridges, traffic signals, etc). This requirement permits an optional four-year further delay for implementation to the fiscal year ending in 2006. The City elected to implement the basic model and the infrastructure-related portion for the year ended June 30, 2002.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Accounting Controls. The City Administrator is required by City Charter to prepare and submit an annual budget to City Council. A budget is prepared for the General Fund, and Special Revenue Funds. These budgets are prepared on the modified accrual basis and are adopted by City Council as required by the State of Michigan. Budgetary control is maintained at the departmental level for the General Fund. The City Administrator is authorized to transfer budgeted amounts within the General Fund departments. Budgetary control for the Special Revenue Funds is maintained at the fund level. Revisions to a department total of the General Fund or to the fund total of a Special Revenue Fund must be approved by City Council; some supplemental budgetary appropriations, of immaterial size, were necessary during the fiscal year. At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Any outstanding encumbrances are carried forward to the succeeding fiscal year. Enterprise, Internal Service, and Pension Trust Funds also have legally adopted budgets. Two Special Revenue Funds do not have a legally adopted budget – Parks Maintenance and Repair Millage, as it was expected to have expended the remaining fund balance during the prior year, and Leslie Homestead as it was closed at the beginning of the fiscal year.

Investments. Investments are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Receivables and Payables. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Interfund balances at year-end relate to items accrued after year-end related to interfund transfers. These items are repaid immediately in the new year.

Inventories. Inventories of materials and supplies are stated at cost using the first-in, first-out method. The cost is accounted for as an expenditure in governmental funds and an expense in the proprietary funds at the time inventories are used.

Capital Assets. Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., road, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Type</u>	<u>Years</u>
Structures and improvements	40-50
Improvements other than buildings	20-99
Machinery, equipment and vehicles	3-15
Infrastructure	15-25

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrances. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting (under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation) is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Compensated Absences. The City accrues vacation pay, compensatory time off, severance pay for sick leave, and any salary-related payments for these compensated absences in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. The current obligations of all funds and the long-term obligations of Proprietary Funds are recorded in the respective funds. City employees are granted vacation time based on length of service. Most employees have the option of receiving compensatory time off in lieu of pay for overtime worked up to 120 hours. Sick pay is earned at the rate of one day per month, and unused sick days may be accumulated without limitation. An employee is paid, in most cases, a maximum 960 unused sick hours and the total of any remaining accumulated hours upon retirement or death. City policy provides for payment of unused vacation and compensatory time off, but not unused sick hours, to terminated employees. Paid time off that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Paid time off is accrued when incurred in proprietary funds and reported as a liability. For all funds, the current portion is the amount estimated to be used in the following year. In accordance with GAAP, for the governmental funds, in the Fund Financial Statements, the non-current portion of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations. In addition to the Proprietary Funds, the General Fund, and several nonmajor special revenue funds have been used to liquidate the liability for compensated absences.

Interfund Transactions. During the course of normal operations the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The basic financial statements generally record such transactions as operating transfers. Operating subsidies are also recorded as transfers. Internal Service Funds are used to record charges for services to all City service areas and funds as operating revenue for the services provided. All City funds record payments to the Internal Service Funds as operating expenditures.

Certain funds remit payments for municipal service charges in lieu of taxes to the General Fund based on a pro rata share of general administrative overhead of the City government. Payments are recorded as revenue in the General Fund and as operating expense in Enterprise Funds.

Self Insurance. The City is self-insured for property, casualty, and employee benefit coverage. Costs of actual claims and estimated incurred but not reported claims, less any excess insurance coverage, are expensed in the Insurance Internal Service Fund at the time the liability is estimated.

Reserves and Designations. In the fund financial statements, reserves indicate portions of fund equity not appropriable for expenditures and/or legally segregated for a specific future use. Designations indicate tentative plans for financial resource utilization in a future period. Such plans are subject to change, and may never be legally authorized or result in expenditures. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Grants and Other Intergovernmental Revenues. Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. All other grants are recorded as intergovernmental receivables and revenues when the related expenditures are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Concluded)

Statements of Cash Flows. The City presents Statements of Cash Flows for all proprietary fund types. These statements, which have been prepared utilizing the *direct method*, analyze the net increase or decrease in cash/cash equivalents by source. For purposes of the statement of cash flows, the City considers all highly liquid investments purchased with an original maturity of three months or less and the deposits in the investment funds to be cash equivalents.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Operating Revenues and Expenses. Proprietary funds distinguish operating revenue and expenses from nonoperating revenue and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges for services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise and internal service funds include the cost of sales and service, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

4. EQUITY IN POOLED CASH AND INVESTMENTS

The City maintains an investment pool for all City funds. Each fund's portion of the investment pool is displayed on the balance sheet as "Equity in Pooled Cash and Investments." The Consolidated Investment Fund is eliminated for financial reporting purposes. In addition, the cash resources of the Pension Trust Fund and certain other funds are invested separately. The following is a reconciliation of deposit and investment balances (including both pooled cash and investments as well as pension trust fund balances) as of June 30, 2005:

	Cash	Investments	
		Equity in pooled cash and investments	Investments
Governmental activities	\$4,179,158	\$67,820,413	\$3,485,357
Business-type activities	12,793,542	51,591,934	12,907,215
Component units	879,392	87,740	20,228,935
Fiduciary funds	5,151,218	1,426,088	430,320,946
Totals	<u>\$23,003,310</u>	<u>\$120,926,175</u>	<u>\$466,942,453</u>
Total Equity in Pooled Cash and Investments and Investments			<u>\$587,868,628</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

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4. EQUITY IN POOLED CASH AND INVESTMENTS (continued)

U. S. Government Agencies	\$76,309,158
U. S. Treasury Bonds & Notes	111,688,063
Corporate Bonds and Notes	33,333,897
Commercial Paper	4,994,477
Municipal Bonds	337,586
Repurchase Agreements	7,672,549
Stocks - Common	277,279,857
Partnerships and Joint Ventures	15,471,241
Guaranteed Investment Contracts	11,863,920
Real Estate Participation Interest	23,857,059
Collateralized Mortgage Obligations	8,792,471
Total	<u>\$571,600,278</u>
Mutual Funds - unclassified as to risk	<u>16,268,350</u>
Total Investments	<u><u>\$587,868,628</u></u>

Custodial Credit Risk for Deposits. For deposits, custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to the government. At year end, the carrying amount of the City's deposits, including component units was \$23,003,310 and the bank balance was \$24,010,093. Of the bank balance, \$302,095 was covered by federal depository insurance. The remaining \$23,707,998 was exposed to custodial credit risk as it was uninsured and uncollateralized.

The City's investment policy does not specifically address this risk, although the City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments. Michigan statutes and City policy authorize the City to invest in obligations of the U. S. Treasury, where interest and principal are backed by the full faith and credit of the U.S. Government (including GNMA), commercial paper (rated at the time of purchase by at least two of the major rating agencies within one of their two highest ratings), bankers acceptances, repurchase agreements, bank investment pools and the State Treasurer's Investment Pool. Pension fund investment policy is governed by the Pension Trustees and makes additional allowances for investments in equities, long-term securities and other securities of relatively higher risk.

Custodial Credit Risk for Investments. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that investment securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of delivery vs. payment. As of June 30, 2005, none of the City's investments, excluding the mutual funds which are not subject to custodial credit risk, were exposed to risk since the securities are held in the City's name by the counterparty.

4. EQUITY IN POOLED CASH AND INVESTMENTS (continued)

Credit Risk. As of June 30, 2005, all of the City's investments in securities of U.S. agencies were rated AAA by Standard & Poor's and Aaa by Moody's. Investments in commercial paper were rated A-1+ by Standard & Poor's and P1 by Moody's. The City also held investments in U.S. treasuries and money market mutual funds, which are not rated. All of the City's investments comply with its policy regarding the types of investments it may hold.

Concentration of Credit Risk. At June 30, 2005, the investment portfolio was concentrated as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>% Of Portfolio</u>
U.S. Treasuries		54.82%
U.S. Agencies	Federal National Mortgage Association	15.90%
	Federal Home Loan Bank	8.24%
	Federal Home Loan Mortgage Corporation	6.63%
	Federal Farm Credit Bank	4.02%
Commercial Paper	Barton Capital	2.33%
Repurchase Agreements	Morgan Stanley	3.37%
Cash and Cash Equivalents		4.61%
Certificates of Deposit	Bank of Ann Arbor	0.08%

The City's investment policy states that the amount of investments in Repurchase Agreements and U.S. Treasury securities shall at no time be less than 50% of the total portfolio and there shall be no maximum limits on these investments. The balance will not exceed the following maximum limits in each of the categories listed below as a percentage of the total portfolio.

35% in Instrumentality Securities
50% in Commercial Paper
30% in Bankers Acceptances
20% in FDIC insured Certificates of Deposit
30% in Money Market Mutual Funds
10% in Investment Pools
10% in Joint Interlocal Investment Ventures

No more than 5% of the total portfolio shall be invested in any one issuer of commercial paper or bankers' acceptances.

Interest Rate Risk. As of June 30, 2005, maturities of the City's debt securities were as follows:

	<u>Fair Value</u>	<u>City Investments</u> <u>Weighted Average Maturity</u>
U. S. Government Agencies	\$45,822,378	.90-4.50 years
U. S. Treasury Bonds & Notes	75,934,825	1.08 years
Commercial Paper	4,495,680	0.02 years
Repurchase Agreements	7,672,549	
Total	<u>\$133,925,432</u>	

4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Of the above balances, \$35,405,440 of U.S. agencies securities were callable.

To the extent possible, the Treasurer shall match investments with anticipated cash flow requirements. Unless matched to a specific cash flow liability and approved by the Finance Director in writing the City will not invest in securities maturing more than seven years from the date of purchase, and the weighted average maturity of the portfolio shall not exceed 3.5 years. The City shall maintain at least 10% of its total portfolio in instruments maturing in 90 days or less.

PENSION TRUST FUNDS

The City of Ann Arbor's Employees' Retirement System trust funds (the "trust funds" or the "System") deposits and investments are maintained separately from the City's pooled cash and investments, and are subject to separate investment policies and state statutes. Accordingly, the required disclosures for the System's deposits and investments are presented separately.

Deposits - The System does not maintain any checking or other demand/time deposit accounts. Amounts reported as cash and cash equivalents in the statement of plan net assets are composed entirely of short-term investments in money market accounts.

Investments - The Michigan Public Employees Retirement Systems' Investment Act, Public Act 314 of 1965, as amended, authorizes the System to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations. The Retirement Board has the responsibility and authority to oversee the investment portfolio. Various professional investment managers are contracted to assist in managing the System's assets. All investment decisions are subject to Michigan law and the investment policy established by the Retirement Board.

The System's investments are held in a bank-administered trust fund. Following is a summary of the System's investments as of June 30, 2005:

U. S. Government Agencies	\$15,717,666
U. S. Treasury Bonds & Notes	35,753,238
Corporate Bonds and Notes	33,333,897
Municipal Bonds	337,586
Stocks - Common	277,279,857
Partnerships and Joint Ventures	15,471,241
Guaranteed Investment Contracts	11,863,920
Real Estate Participation Interest	23,857,059
Collateralized Mortgage Obligations	8,792,471
Total	<u>\$422,406,935</u>
Mutual Funds - unclassified as to risk	<u>7,914,011</u>
Total Investments	<u><u>\$430,320,946</u></u>

4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Credit Risk. The System's investment policy provides that its investments in fixed income securities be limited to those rated investment grade by a nationally recognized statistical rating organization. As of June 30, 2005, the System's investments in securities of U.S. agencies were all rated AAA by Standard & Poor's. The System's investments in corporate securities were rated by Standard & Poor's as follows:

Pension Investments

AAA	8,805,518
AA	269,915
A	12,762,199
BBB	6,976,964
BB	2,679,618
B	1,619,853
not rated	219,830
	<u>\$33,333,897</u>

Custodial Credit Risk. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy requires that investment securities be held in trust by a third-party institution in the System's name. As such, although uninsured and unregistered, the System's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department in the System's name. Short-term investments in money market funds are not subject to custodial credit risk.

Concentration of Credit Risk. The System's investment policy requires that the securities of any one company or government agency should not exceed 5% of the total fund and no more than 30% of the total fund should be invested in any one industry. At June 30, 2005, more than 5% of the System's investments were in corporate bonds which 9.39% of the investment portfolio.

Interest Rate Risk. As of June 30, 2005, maturities of the System's debt securities were as follows:

	<u>Fair Value</u>	<u>Weighted Average Maturity (in years)</u>
U.S. treasuries	\$35,753,238	4.81
U.S. agencies	15,717,666	5.80
Municipal bonds	337,586	7.93
Corporate bonds	33,333,897	3.55
Domestic corporate securities	8,792,471	16.57
Total debt securities	<u>\$93,934,858</u>	
Portfolio weighted average maturity		5.64

4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

COMPONENT UNITS

Deposits and investments

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the DDA's deposits may not be returned. State law does not require and the DDA does not have a policy for deposit custodial credit risk. As of year end, \$292,965 of the DDA's bank balance of \$392,965 was exposed to custodial credit risk because it was uninsured and uncollateralized. For the deposits held at the City of Ann Arbor, it is impossible to determine custodial credit risk since the DDA's deposits are pooled with other City deposits.

Custodial Credit Risk – Investment. Following is a summary of the DDA's investments as of June 30, 2005:

U.S. Government Agencies	\$ 14,043,609
Money Market Fund	1,041,063
GE Commercial Paper	498,797
Govt Select Investment Pool	<u>3,919,961</u>
Total	<u>\$ 19,503,430</u>

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the DDA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the DDA does not have a policy for investment custodial credit risk. \$3,919,961 of the investments listed above are unclassified as to custodial credit risk as the invested amount is part of an investment pool. \$15,583,469 of the investments above are uninsured and unregistered, with securities held by the agent in the Authority's name.

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of investments above. The DDA does not have an investment policy that sets specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. For the U.S. Government Agencies investments, \$493,594 mature within one year, \$3,700,558 have a maturity of one to five years, and \$9,849,457 have a maturity of six to ten years. None of the other investments are subject to investment rate risk.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The DDA does not have an investment policy that sets specific limits in excess of state law on investment credit risk. As of June 30, 2005, all of the investments in U.S. Government Agencies were rated AAA by Standard & Poor's. Also, the GE Commercial Paper was rated SP-1 by Standard & Poor's.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The DDA does not have an investment policy that limits concentration of credit risk. All investments held at year- end are reported above. At June 30, 2005, 72% of the DDA's investments were concentrated in U.S. Government Agencies.

NOTES TO FINANCIAL STATEMENTS (Continued)

5. INTERFUND RECEIVABLES AND PAYABLES

	Due From Other Funds	Due To Other Funds	Due From Component Unit/ Primary Government	Due To Component Unit/ Primary Government
Primary Government:				
General Fund	\$3,101,342	\$474,806	\$189,479	\$2,900
Special Revenue Funds:				
Street Repair Millage	2,185,811	314,265		
Nonmajor funds	83,095	1,219,096		
Total Special Revenue Funds	2,268,906	1,533,361		
Debt Service Funds:				
Nonmajor Debt Service Funds	947	44,704	6,910	
Capital Projects Funds:				
Nonmajor Capital Projects Funds	578	69,287		
Enterprise Funds				
Water Supply System	\$153,552	\$1,423,934		
Sewage Disposal System	1,218,259	725,757		
Market	800	2,000		
Golf Courses		1,031,948		
Airport		7,997		
Stormwater Sewer System	43,124	688,856		
Solid Waste	45,864	166,366		
Total Enterprise Funds	1,461,599	4,046,858		
Internal Service Funds	272,280	936,636		
Total Primary Government	7,105,652	7,105,652	196,389	2,900
Component Units				
Downtown Development Authority			2,900	171,936
Ann Arbor Housing Commission				24,453
Total Component Units			2,900	196,389
Total All Funds and Component Units	\$7,105,652	\$7,105,652	\$199,289	\$199,289

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Interfund balances at year-end relate to items accrued after year-end related to interfund transfers. These items are repaid immediately in the new year.

6. PROPERTY TAXES

Each July 1st the City property tax is levied and becomes a lien on the related property, the value of which is equalized by the State of Michigan and limited by Act 415 of 1994. The City's operating tax rate levied July 1, 2004, as controlled by the Headlee Amendment, Act 415 and City Charter, is 6.2125 mills. Real and personal property located in the City as of December 31, 2003 were assessed and equalized at \$5,222,389,700, representing 50% of estimated current value. Act 415 of 1994 limits annual increases in taxable value to 5% or the Consumer Price Index, whichever is less. The 2004 taxable value on March 1, 2005 was \$4,029,176,288. Property taxes are due July 31st of each year and any delinquent real property taxes are turned over to Washtenaw County for collection the following March 1st. The County pays all its municipalities from a revolving fund for delinquent real property taxes. Delinquent personal property taxes are negligible.

7. CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance July 1, 2004, as restated	Additions	Retirements	Ending Balance June 30, 2005
Governmental Activities				
Non-Depreciable Assets:				
Land	\$22,966,096	1,374,039		\$24,340,135
Construction in progress	2,176,623	2,404,321	(433,385)	4,147,559
Depreciable Assets:				
Buildings	21,752,843			21,752,843
Leasehold improvements	8,646			8,646
Improvements other than buildings	2,993,001	206,720		3,199,721
Machinery and equipment	13,741,480	884,913	(202,525)	14,423,868
Vehicles	11,601,199	899,181	(1,267,638)	11,232,742
Infrastructure	650,091,504	12,043,128	(1,719,754)	660,414,878
Total at historical cost	725,331,392	17,812,302	(3,623,302)	739,520,392
Less accumulated depreciation for:				
Buildings	(8,872,419)	(553,342)		(9,425,761)
Improvements other than buildings	(310,876)	(70,115)		(380,991)
Equipment and vehicles	(18,512,677)	(2,047,099)	1,427,363	(19,132,413)
Infrastructure	(81,252,913)	(4,979,778)	1,587,291	(84,645,400)
Total accumulated depreciation	(108,948,885)	(7,650,334)	3,014,654	(113,584,565)
Governmental activities capital assets, net	\$616,382,507	\$10,161,968	(\$608,648)	\$625,935,827

NOTES TO FINANCIAL STATEMENTS (Continued)

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7. CHANGES IN CAPITAL ASSETS (Concluded)

	Beginning Balance July 1, 2004, as restated	Additions	Retirements	Ending Balance June 30, 2005
Business-type Activities				
Non-Depreciable Assets:				
Land	\$7,374,728			\$7,374,728
Construction in progress	47,010,481	14,349,558	(32,399,875)	28,960,164
Depreciable Assets:				
Buildings	84,328,002	25,270,839		109,598,841
Improvements other than buildings	131,145,372	6,253,805		137,399,177
Machinery and equipment	34,206,137	1,226,245	(4,541)	35,427,841
Vehicles	5,002,140	2,740,068	(98,022)	7,644,186
Total at historical cost	309,066,860	49,840,515	(32,502,438)	326,404,937
Less accumulated depreciation for:				
Buildings	(39,359,876)	(1,977,925)		(\$41,337,801)
Improvements other than buildings	(58,434,762)	(2,514,912)		(60,949,674)
Equipment and vehicles	(27,468,751)	(3,342,384)	100,848	(30,710,287)
Total accumulated depreciation	(125,263,389)	(7,835,221)	100,848	(132,997,762)
Business-type activities capital assets, net	\$183,803,471	\$42,005,294	(\$32,401,590)	\$193,407,175

Depreciation expense was charged to governmental functions as follows:

General government	\$345,593
Public safety	883,538
Public services	574,286
Highways and streets	4,979,778
Culture and Recreation	539,685
Social services	122,788
Information services	167,292
Unallocated depreciation	37,374
	\$7,650,334

Capital assets held by the City's internal service funds are charged to the various functions based on their usage of assets.

8. LEASES

NOTES TO FINANCIAL STATEMENTS (Continued)

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Operating Lease Obligations Payable. The City is the lessee of various properties (primarily office and storage space, as well as parking facilities) under operating leases for periods through 2009. The expenses and related revenues in connection with the leases are recorded in the General, Special Revenue and Pension Trust Funds. The total rent expense for fiscal year 2005 was \$779,848. The following is a table of future minimum noncancellable lease payments by the City:

2006	827,296
2007	552,885
2008	331,002
2009	<u>192,894</u>
Total	<u>\$1,904,077</u>

The City as lessee has other lease arrangements, which have been appropriately accounted for as operating leases. Minimum lease payments payable on such leases are immaterial in amount.

Operating Lease Obligations Receivable. The City is the lessor of various parking, office and airport facilities under operating leases for periods through 2019. Revenues and the related expenses for these leases are recorded in the Enterprise Funds. The total rent revenue for fiscal year 2005 was \$300,130. The following is a table of future minimum noncancellable lease payments to the City:

2006	196,685
2007	196,685
2008	196,685
2009	185,627
2010	212,547
2011-2015	716,121
2016-2019	<u>378,432</u>
Total	<u>\$2,082,782</u>

The City as lessor has other lease arrangements which have been appropriately accounted for as operating leases. Minimum lease payments receivable on such leases are immaterial in amount.

NOTES TO FINANCIAL STATEMENTS (Continued)

8. LEASES (Concluded)

Capital Lease Obligations Payable. The City has entered into certain lease agreements as lessee for financing the purchase of (primarily) various types of equipment, as well as several drain construction projects. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The following is an analysis of the items recorded under capital leases as of June 30, 2005:

<u>Asset Type</u>	<u>Enterprise Fund</u>
Equipment	\$ 275,483
Drains	<u>1,304,801</u>
	1,580,284
Less: accumulated depreciation	<u>330,860</u>
Net book value	<u>\$1,249,424</u>

The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at June 30, 2005:

<u>Year Ending June 30</u>	<u>Enterprise Fund</u>
2006	237,049
2007	187,622
2008	195,330
2009	102,079
2010	98,757
2011	<u>95,380</u>
Total minimum lease payments	916,217
Less: amount representing interest	<u>80,070</u>
Present value of future minimum lease payments	<u>\$ 836,147</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

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9. LONG-TERM OBLIGATIONS

The following is a summary of the governmental activities long-term debt obligations (including accrued compensated absences) of the City for the year ended June 30, 2005:

	Governmental Activities						Governmental	Total	Component
	Capital	General	General				Activities	Governmental	Unit
	Projects	Obligation	Obligation	Special	Other	Total	Accrued	Activities	Downtown
	Bonds	Portion of	Portion of	Assessment	Long-term	Principal	Compensated	Debt	Development
		Special	Special	Bonds	Debt		Absences		Authority
		Assessment	Revenue						Bonds
		Bonds	Bonds						
Bonds and other debt payable at July 1, 2004	\$14,515,000	\$1,020,902	\$3,870,919	\$1,923,816	\$3,644,150	\$24,974,787	\$14,652,022	\$39,626,809	\$7,428,064
Debt issued and other increases:									
Debt issued/accrued							5,774,169	5,774,169	
Amortization of bond discounts		303	1,860	820		2,983		2,983	
Debt retired and other decreases:									
Decrease in accrued compensated absences							5,127,877	5,127,877	
Debt retired	1,755,000	130,000	135,000	400,000	96,100	2,516,100		2,516,100	1,028,614
Bonds and other debt payable at June 30, 2005	\$12,760,000	\$891,205	\$3,737,779	\$1,524,636	\$3,548,050	\$22,461,670	\$15,298,314	\$37,759,984	\$6,399,450
Balance due within one year	\$1,820,000	\$135,000	\$140,000	\$365,000	\$48,050	\$2,508,050	\$1,048,887	\$3,556,937	\$1,085,947

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

9. LONG-TERM OBLIGATIONS (Continued)

The following is a summary of the business-type long-term debt (including accrued compensated absences in enterprise funds) transactions of the City for the year ended June 30, 2005:

	Business-Type Activities						
	Ann Arbor Building Authority Bonds	Lease Contract Payable	Revenue Bonds	Other Long-Term Debt	Other Bonds	Accrued Compensated Absences	Total Proprietary Fund Type Debt
Bonds and other debt payable at July 1, 2004	\$29,965,000	\$400,000	\$75,240,000	\$782,252	\$2,586,936	\$2,540,186	\$111,514,374
Debt issued and other increases:							
Debt issued/accrued			6,795,000	1,708,763		1,394,698	9,898,461
Debt retired and other decreases:							
Decrease in accrued compensated absences						988,982	988,982
Debt refunded			6,725,000				6,725,000
Debt retired	1,695,000	400,000	3,905,000	231,288	1,181,386		7,412,674
Bonds and other debt payable at June 30, 2005	<u>\$28,270,000</u>		<u>\$71,405,000</u>	<u>\$2,259,727</u>	<u>\$1,405,550</u>	<u>\$2,945,902</u>	<u>\$106,286,179</u>
Balance due within one year	\$1,770,000		\$4,655,000	\$309,043	\$344,053	\$159,972	\$7,238,368

NOTES TO FINANCIAL STATEMENTS (Continued)

9. LONG-TERM OBLIGATIONS (Continued)

General Obligation Bonds are collateralized by the full faith and credit of the City; Other Long-Term Debt is collateralized by the revenues of the related funds or the full faith and credit of the City or General Fund appropriations. General Obligation Bonds' requirements will be met primarily through the debt service property tax levy. Special Assessment Bonds are serviced by the underlying special assessments. The Special Assessment Bonds are backed by the full faith and credit of the City to the extent that liens foreclosed against property involved in the special assessment districts are insufficient to retire the outstanding bonds.

Other obligations are as follows: Lease Contract Payable is to Washtenaw County for sewage system improvements and is serviced by the Sewage Disposal system. Revenue Bonds are serviced by the Water Supply System (\$37,265,000) in bond principal at June 30, 2005; Sewage Disposal System (\$33,600,000) and Stormwater Disposal System (\$540,000). Other Long-Term Debt includes various long-term obligations (notes and contracts) paid from general operations and other sources. In addition, the City received \$412,500 from the Michigan Municipal Bond Authority (MMBA) from the Drinking Water Revolving Fund during fiscal year 2005. At June 30, 2005, the outstanding balance was \$382,500. The City also received \$1,074,572 from the MMBA from the Strategic Water Quality Initiatives Fund during fiscal year 2005. At June 30, 2005, the outstanding balance was \$1,039,572.

Other Bonds will be serviced from the revenues of the Downtown Development Authority for the Parking System (\$1,405,550). Various limitations and restrictions are contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

Additionally, during the fiscal year, the City issued \$6,795,000 in refunding bonds to partially advance refund \$3,025,000 of the 1995 Water Supply System Bonds and \$3,700,000 of the 1996 Water Supply System Bonds. The net proceeds were used to purchase U.S. Government securities, which were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments. As a result, the bonds are considered defeased and the liability for the bonds has been removed from the balance sheet. The City advance refunded the bonds to reduce its total debt service payments by \$346,546 over the next ten years and to obtain an economic gain (difference between the present value for the debt service payments on the old and new debt) of \$292,837. In accordance with GASB #23, *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities*, the loss on bond refunding has been amortized over the life of the old debt or the new debt, whichever is shorter. As the old and new debt was still outstanding at the end of the fiscal year, the City has deferred the entire loss of \$144,667 in the Water Supply System Enterprise Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

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9. LONG TERM OBLIGATIONS (Continued)

Below is a summary of general long-term debt (with various issue dates) and annual debt service requirements as of June 30, 2005:

Governmental Activities Debt										
Fiscal Year Ending	Capital Projects Bonds	General Obligation Portion of Special Assessment Bonds	General Obligation Portion of Special Revenue Bonds	Special Assessment Bonds	Other Long-term Debt	Total Governmental Activities Debt Principal	Total Governmental Activities Debt Interest	Total Governmental Activities Debt Requirements	Downtown Development Authority Bonds Principal	Downtown Development Authority Bonds Interest
2006	\$1,820,000	\$135,000	\$140,000	\$365,000	\$48,050	\$2,508,050	\$922,877	\$3,430,927	\$1,085,947	\$241,554
2007	1,885,000	140,000	145,000	360,000		2,530,000	809,440	3,339,440	1,120,613	199,327
2008	1,925,000	75,000	155,000	125,000		2,280,000	702,716	2,982,716	1,157,946	154,672
2009	1,955,000	75,000	160,000	125,000	3,500,000	5,815,000	534,139	6,349,139	1,199,944	107,213
2010	1,960,000	80,000	170,000	125,000		2,335,000	365,455	2,700,455	575,000	72,825
2011	1,965,000	80,000	175,000	120,000		2,340,000	265,344	2,605,344	610,000	50,400
2012	625,000	80,000	185,000	90,000		980,000	192,223	1,172,223	650,000	26,000
2013	625,000	80,000	190,000	80,000		975,000	146,308	1,121,308		
2014		80,000	200,000	80,000		360,000	116,126	476,126		
2015		20,000	210,000	25,000		255,000	100,864	355,864		
2016		25,000	220,000	20,000		265,000	90,910	355,910		
2017		25,000	230,000	15,000		270,000	80,258	350,258		
2018			240,000			240,000	69,125	309,125		
2019			250,000			250,000	59,230	309,230		
2020			260,000			260,000	48,673	308,673		
2021			275,000			275,000	37,417	312,417		
2022			285,000			285,000	25,256	310,256		
2023			300,000			300,000	12,375	312,375		
	\$12,760,000	\$895,000	\$3,790,000	\$1,530,000	\$3,548,050	\$22,523,050	\$4,578,736	\$27,101,786	\$6,399,450	\$851,990
Interest Ranges	3.80 - 5.50%	3.000- 6.25%	2.50- 4.50%	3.20- 6.40%	3.60- 5.15%				3.00- 5.00%	

NOTES TO FINANCIAL STATEMENTS (Continued)

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9. LONG TERM OBLIGATIONS (Concluded)

Below is a summary of the business-type activity and component unit debt (with various issue dates) and annual debt service requirements as of June 30, 2005:

Fiscal Year Ending	Enterprise Funds					Total Enterprise Fund Principal Requirements	Total Enterprise Fund Interest Requirements	Total Enterprise Fund Requirements
	Ann Arbor Building Authority Bonds	Lease Contract Payable	Revenue Bonds	Other Long-Term Debt	Other Bonds			
2006	\$1,770,000		\$4,655,000	\$199,343	\$344,053	\$6,968,396	\$4,175,927	\$11,144,323
2007	1,845,000		4,710,000	160,011	349,387	7,064,398	3,810,969	10,875,367
2008	1,810,000		4,805,000	121,105	352,054	7,088,159	3,559,050	10,647,209
2009	1,710,000		4,905,000	173,300	360,056	7,148,356	3,267,957	10,416,313
2010	1,790,000		4,940,000	91,948		6,821,948	2,980,915	9,802,863
2011	1,875,000		5,150,000	91,948		7,116,948	2,698,773	9,815,721
2012	1,940,000		5,110,000			7,050,000	2,418,444	9,468,444
2013	2,010,000		5,250,000			7,260,000	2,132,280	9,392,280
2014	2,075,000		3,310,000			5,385,000	1,862,008	7,247,008
2015	2,145,000		2,750,000			4,895,000	1,648,236	6,543,236
2016	2,120,000		2,820,000			4,940,000	1,436,142	6,376,142
2017	2,190,000		2,915,000			5,105,000	1,214,743	6,319,743
2018	1,665,000		2,290,000			3,955,000	1,019,078	4,974,078
2019	1,720,000		2,365,000			4,085,000	838,646	4,923,646
2020	1,070,000		2,465,000			3,535,000	661,197	4,196,197
2021	260,000		2,570,000			2,830,000	516,123	3,346,123
2022	275,000		2,665,000			2,940,000	395,741	3,335,741
2023			2,760,000			2,760,000	272,567	3,032,567
2024			2,845,000			2,845,000	153,496	2,998,496
2025			2,125,000			2,125,000	45,156	2,170,156
	<u>\$28,270,000</u>	<u>\$0</u>	<u>\$71,405,000</u>	<u>\$837,655</u>	<u>\$1,405,550</u>	<u>\$101,918,205</u>	<u>\$35,107,448</u>	<u>\$137,025,653</u>
Interest Ranges	2.00- 5.75%		2.00- 7.30%	3.50- 6.80%	3.60- 4.05%			